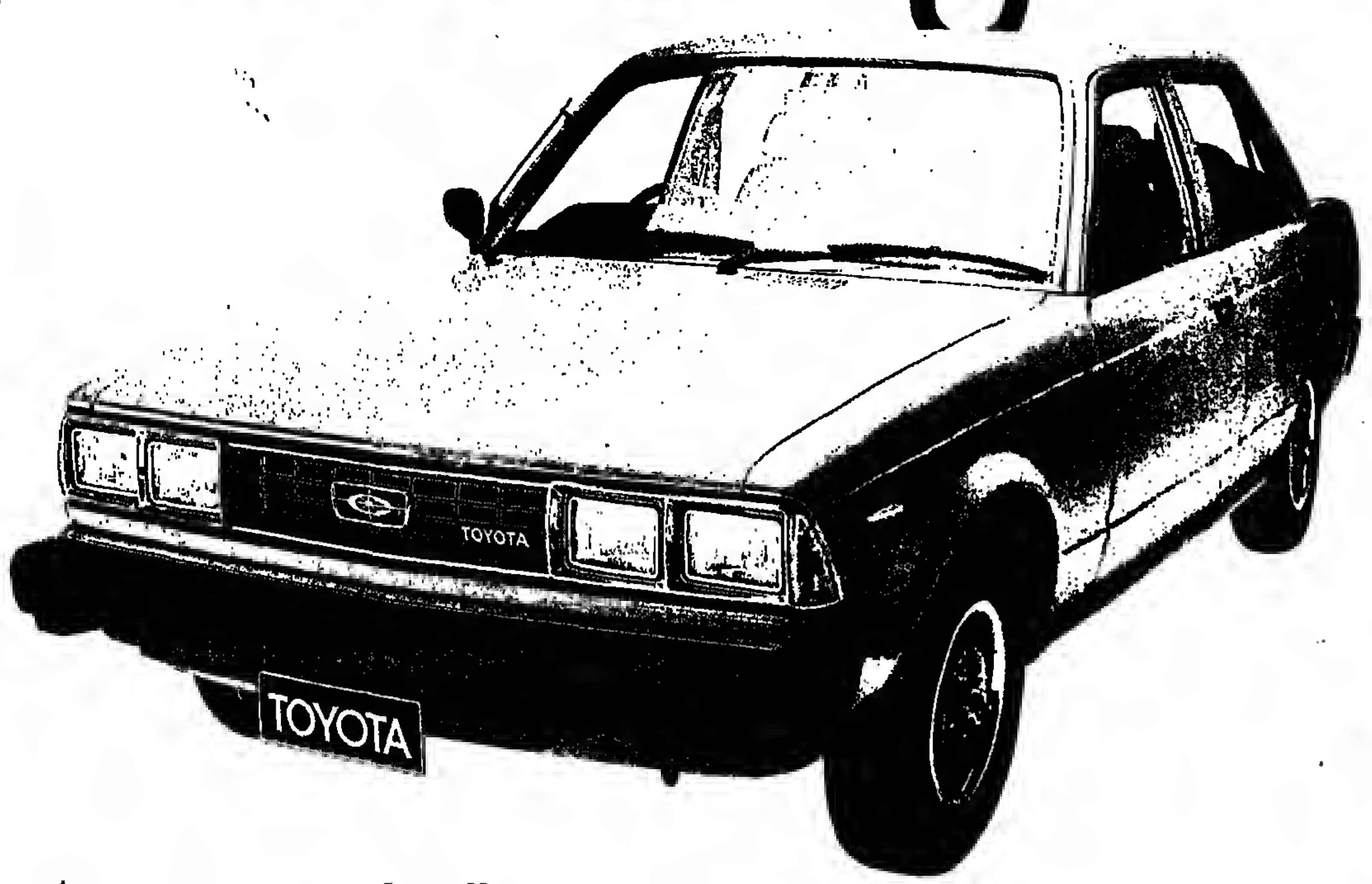

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NATIONAL BUSINESS REVIEW

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Inside

Importers by-pass built-in checks against licence abuse

IMPORTERS have again been treading a direct path to the Trade and Industry Department to file licensing applications — a practice that was outlawed three years ago.

Applications for import licences are supposed to be filed with the local Collector of Customs, then forwarded to Trade and Industry for consideration.

But importers have been taking applications direct to licensing officers, opening the system to the favouritism revealed by the Ombudsman's inquiry into the La Varis case and the maladministration uncovered in the three trials of former Assistant Director Brian Pound.

Senior advisory officer Jim Clark — cross-examined in Wellington High Court — admitted that "sometimes experienced [illegible] all applications there and then and then put it into the system".

Evidence was given in those three trials — to the apparent surprise of Derek Homewood, who as Assistant Secretary was largely responsible for reorganising the system — that the old practices are again being followed.

Defence lawyers conducted a survey among Customs officials and found the direct approach to Trade and Industry was "very frequent indeed".

Before 1977, importers would often hand licensing officers a bundle of applications for consideration to short-circuit the system and its built-in checks against abuse.

Importers are required, strictly, to file applications with Customs in quadruplicate.

One copy, the blue, is returned to the importer to acknowledge receipt.

On the top copy, the importer's licensing history relevant to those item codes is entered from Customs files before all three remaining copies are forwarded to Trade and Industry.

On arrival there, applications are date-stamped and passed to an executive officer who distributes them to desk officers for consideration.

Officers decline, modify or grant applications after referring to the importer's licensing history, the import licensing schedule, the item policy scheduce (which is confidential to Trade and Industry officers), Government policy statements, and knowledge of local industry and the market-place.

Depending on their experience, desk officers are restricted in their ability to make decisions. Larger applications are handled by executive officers and where a firm statement of policy is required they may be passed to director level — and even to the Minister of Trade and Industry — for consideration.

[illegible] for their decisions, a practice rarely followed by senior officers before 1977. Now, at least for desk officers, there are 11 standard "refusals".

Derek Homewood . . . apparent surprise

Once approved, the top copy is sent to Customs where, after the signature has been validated as being that of an approved officer, a licence is typed.

Yellow copies are filed on the importer's individual file and the third copy, the pink, is sent to regional Trade and Industry offices except in Wellington, where it is destroyed.

Customs posts the licence to the importer and sends a copy to Trade and Industry's budget control section, where it is noted against the item code.

That is the theory of a system that was supposed to have been implemented in 1973, when licence control was shifted from within the Customs Department to Trade and Industry along with the relevant officers administering it.

Then, only officers ranked as senior advisory officers or higher had decisinn-making powers through authority delegated by the Minister of Customs, which by Order in Council became the delegated authority of the Minister of Trade and Industry.

Changes in Government policy toward imports are reflected in the import licensing schedule released annually in April, along with an explanatory statement from the Minister.

Licensing officers are issued with the item policy schedule, *an in-house guide not released* to the public or importers, and a more detailed explanation and interpretations of the Minister's statements.

Both schedules are prepared late in the calendar year for consideration by the Cabinet Economic Committee.

For the licensing years 1975-76, 1976-77 and 1977-78, the Government ordered a tight import policy with many items restricted to "basic licences only".

Basic licences are regarded as a permanent allocation, automatically renewed annually direct by Customs. Importers can then apply for non-basic special licences, valid for one year only, if they can justify certain criteria.

It was the issuing of non-basic specials that were in question in the three recent trials in Wellington High Court, as well as the transfer of licences from one item code to another, particularly for Chinese goods.

Evidence was given by licensing officers, past and present, both for the defence and prosecution, that senior officers always considered they had sufficient authority to [illegible] policy.

In 1975-76 and 1976-77, the Government had said that special licences would not be automatically renewed as in the past.

Trade and Industry executive officer Douglas Gribben, a former Customs officer, was asked by counsel for the defence: *Despite the tight policies what happened to the usual special applications of the community in general?* "Most of them were re-issued," he said.

Senior advisory officer Peter Garford confirmed Gribben's answer.

He was asked if, notwithstanding the Minister's statement, it was usual to issue special licences if they had been issued in previous years? Garford said: "That's right."

He said that "in, I suppose 95 per cent of cases, licences above basic were issued year after year when in fact they should have been issued as basic licence at some stage. Incompetence of some of the junior staff in repeating things made it imperative to ensure that those licences were granted, notwithstanding the Minister's statement."

Importers wanting special licences must first satisfy certain conditions: they must be already trading in complementary or similar products and have a relevant licensing history.

For Chinese foodstuffs, for instance, importers must show that the product is of a special kind not readily available from domestic manufacturers and that it was specifically required by the Chinese community, and applications would have to be examined in the knowledge of basic licence allocations as well as other special licences.

Finally, the over-riding Government policies of the day must be considered.

But during the trials, licensing officers told the court that the fact of an application for Chinese foodstuffs justified the need criteria, and Budget allocations in the item policy schedule over and above "basics only" requirements clearly allowed some scope for the granting of special licences.

Importers and customs agents spoken to by *NBR* advise that it is always best to consult with the relevant licensing officers before filing an application to ensure approval. And if an application is likely to be refused, then it is common for an importer to try again later in the year.

Importers who used to send applications direct to Trade and Industry to get speedy action are now sending photocopies of their applications filed with Customs.

Homewood has tightened the system considerably since 1977. Budget allocations, over and above the annual allocation set out in the item policy code for licensing officers' eyes only, have been abolished. Homewood reasoned that a Budget allocation should make little difference to the merits of an application which can be granted or rejected on other criteria.

Licensing officers are frequently rotated, discouraging importers from building up a relationship with one officer. But importers have yet to stop taking licensing officers out to lunch.

As a sequel to the recent court case, Trade and Industry Secretary Harry Clark has set

Continued on Page 2

The week

Meatworkers load-out ban

MEATWORKERS imposed a load-out bao to support Australian union efforts to stop the export of live sheep to the Middle East.

CHANGES in transport planning provisions were made to the Urban Transport Development Bill to make it more acceptable to local authorities.

THE Dairy Board will not increase cheese exports to Australia this year.

THE Government will allow emergency ambulances ro be manned by two officers.

THE Cinematograph Films Amendment Bill, introduced into Parliament, will delicence the cinema industry and allow anyone to show films.

THE Government injected $25,000 into a new exchange programme with ASEAN countries that will cater for people who show leadership qualities in professional areas.

THE Racing Amendment Bill will allow off-course betting for greyhound racing and make returns on a winning TAB ticket at least as much as amounts invested.

GOVERNMENT MP Dail Jones' battle to ban *Penthouse* took him directly to the Indecent Publications Tribunal after he failed to win support from Justice Minister Jim McLay.

MAORI Affairs Department staff at the central office in Auckland refused to man their new office until the State Services Commission allows additional travel allowances.

AIR New Zealand's DC-10 aircraft are interesting prospective buyers in the United States, South America, Africa and Europe.

THE Rugby Union deferred until next month a decision to invite the Springboks to tour in 1981.

MANA Motuhake leader Mat Rata will stand for Northern Maori in the 1981 general election.

BROADBANK Corporation general manager Donald Brash, was chosen as National Party candidate for the East Coast Bays by-election.

SENATOR Edward Kennedy lost all hope of gaining the Democrat Party's nomination when his bid for open voting at the convention was defeated.

THE Australian Governmenr will impose a stricter control of its uranium resources after two tonnes of the nuclear raw material was found to have been stolen.

THE Iranian parliament elected Education Minister Mohammed Ali Raiai as Prime Minister.

The business week

Alcan NZ Ltd reported an unaudited group net profit of $1,583,000 for the half-year to June 30, ($1,392,000 same period last year). An interim dividend of 10 per cent is payable on November 1

Cooks NZ Wines Ltd reported an audited profit of $1,042,181 for the year to June 30 ($702,385 last year). A final dividend of 15 per cent is payable.

Dingwall & Paulger Ltd reported an audited net profit of $506,135 for the year to April 30 ($401,568 last year). A final dividend of 16c is payable on September 10.

Email Ltd reported an unaudited tax-paid profit of $A6,562,000 for the half-year to June 30 ($A 3,123,000 same period last year). An interim dividend of 3c is payable on October 24.

Hallenstein Bros Ltd reported an unaudited tax-paid profit of $1.574 million for the year to June 30 ($1.2 million last year). A final dividend of 10c is payable.

The Independent Broadcasting Company Ltd reported an unaudited pre-tax profit of $62,096 for the half year to July 31 ($177,590 same period last year). An interim dividend of 8 per cent is payable on October 20.

Lion Breweries Ltd appointed R C Bradshaw as deputy chairman.

MIM Holdings Ltd appointed Norman Coldham-Fussell as an executive general manager.

Peko-Wallsend Ltd made a cash offer for the whole of the issued capital in Production Equipment Ltd.

The week ahead

MONDAY: Dominion Breweries' annual general meeting in Auckland.

Southern Cross Horels annual general meeting in Dunedin.

TUESDAY: Commerce Commission hearing on the case of Dominion Breweries and Lion Breweries' refusal to supply the Duke of Marlborough Hotel.

Lands and Agriculture select committee hearing on the National Parks Bill.

Commerce and Energy select committee hearing on the Companies Amendment Bill.

Statutes Revision select committee hearing on the Wanganui Computer Amendment Bill.

Institute of Credit and Financial Management annual general meeting in Wellington.

Taylors Drycleaning and Laundry Services' annual general meeting in Riccarton.

WEDNESDAY: Ballins Industries' annual general meeting in Christchurch.

Ceramco's annual general meeting in Christchurch.

THURSDAY: Mansfield Holdings' annual general meeting in Wellington.

FRIDAY: Psychological Society's annual general meeting at Otago University.

Carter Holt Holdings' annual general meeting in Auckland.

Regina Confections' annual general meeting at Oamaru.

SATURDAY: Industries Fair at Addington showgrounds

PO "muzzling media"

"GOVERNMENT is effectively muzzling the free press with massive postal increases," says Business Press Association president Glenn Le Noel.

Concerned that postal increases would close down more periodicals than the 66 magazines turned belly-up last year, Le Noel pointed out that second-class postal rates for publications will increase 100 per cent on January 1.

Postal rates had gone up 200 per cent in the last 17 months, he said.

The January increase from 10c to 20 was much higher than the 40 per cent increase called for in the budget. An Australian magazine travels from Melbourne to Perth — 3000-odd miles — for 16c.

It will cost 20c to send a magazine across Wellington from January.

"New Zealand is a small country. Yet the Post Office is the only effective distribution channel. And this is a Government monopoly," Le Noel said.

"The only justification open to the Post Office for such a massive increase is for it to broaden its services, which it is not doing," he said.

"Unlike the Railways which made a huge loss last year the Post Office made a $26 million profit. So there is no justification for the 200 per cent increase."

Business magazines were acknowledged by Government as an important information source — "but they bring technology to industry, the professions and the rural scene," Le Noel said.

The Post Office increases were not only a threat to the free press in New Zealand but a slap in the face for the business community which relies extensively on newspapers and trade publications to keep up to date on market information and technological opportunities he said.

These publications, run by private enterprise, not Government, worked on fine margins and the doubling of postal rates could lead to further magazine closures which would have an effect on the printing trade, advertising and employment, Le Noel pointed out.

Continued from Page 1

out three basic principles on accepting such offers:

- Officers are to act with the utmost integrity;
- Any entertainment or gift received is to be of a modest nature;
- If a special social relationship is developed with a person the officer is to ensure he or she does not make a decision involving that person's business affairs.

Clark also laid out five guidelines:

- Acceptance of invitations to lunch, dinner or other type of social function from an individual firm should not exceed once or twice a year;
- If the invitation is to bring other departmental officers the number should be kept as small as possible;
- Gifts are to be avoided if at all possible. Where a refusal could be misunderstood or cause offence, then items should be handed to the social club, or if this would not be appropriate a more senior officer should be informed;
- Offers to provide transport for visits to firms or conferences in New Zealand, or overseas are not to be accepted. The department will pay if the trip is necessary;
- Where entertainment or a gift has been received by an officer from a businessman, the officer must consider whether or not he or she should make a decision on any application or request from the businessman. If it is considered appropriate action should be taken only after getting a report from another officer.

And Clark has indicated that the secretive item schedule may be pub[illegible] move that has been under consideration for some [illegible] that importers are fully [illegible] of the policies being [illegible] and they can judge [illegible] they are being treated [illegible] equitable and reasonable [illegible]ner."

Drivers steering for settlement above 13 per cent

by Jim Hopkins

WHEN drivers and employers resume award talks on Wednesday, it's almost certain they will agree to a general pay rise higher than the 13 per cent ceiling first mooted by Labour Minister Jim Bolger a fortnight ago.

Some feel the final figure agreed to in the transport industry award could reach 14 per cent. Not so, according to employers' sources.

"The industry's rock hard this year," said one. "It's very tough minded. They're not far off saying 13 per cent and that's it."

But the inside money is on a settlement a few percentage points above the national Government ceiling of 13 per cent.

One view is that the union is effectively extracting "hush money", wringing from the employers a level of settlement guaranteed to buy a quiet and trouble-free wage round.

There is a catch with that, however.

The union must still settle quickly and easily to underline what some see as allied victories — a "Government backdown" over the Remuneration Act and negotiated settlements gratifyingly close to the original claim.

Another view is that the settlement in the drivers' award will effectively be a public face-saver for the FOL, a concession to good long-term relations between unions and Employers Federation. Tough-mindedness and logic — goes this view — would dictate that even 13 per cent is too high. Many firms will be hard pressed to pay and increased unemployment in the industry is therefore likely.

There is another urgent imperative — the FOL should not be put in the publicly embarrassing position of being seen to meekly accept the Government's 13 per cent ceiling the first time it sits down to bargain. Any movement above 13 per cent would be a concession to the sensibilities of the FOL — a short-term trade-off for a long-term advantage.

"It'll let the FOL say they've busted the guideline," says one observer, who concedes that it will "put employers in the position that they have to pay a bundle".

Such tactics are an important element in the chess match of industrial relations.

Whatever is settled above 13 per cent, it will give the drivers most of the 20 per cent they asked for two months ago. Since then the Budget has bestowed a 4 per cent general wage order, and in September, when the drivers' increased pay rates take effect, the total boost will be more than 17 per cent.

Observers say the drivers' settlement will be no guideline to settlements in other industries.

They point to the importance and influence of the review committee planned to examine and overhaul the road transport industry and argue it makes the drivers' award a special case from which comparisons can't be drawn.

But Jim Rowe, executive director of the Employers' Federation, believes that now the Government has posted its ceiling, "all unions will try and do better than 13 per cent one way or another".

Union officials are more sanguine. "Many unions will find it bloody hard to get the employers up to 13 per cent," admits one. "The drivers are already above what others will get."

Trans-Tasman clothing arrangement all tattered and torn

by Roe Mazengarb

NEW Zealand and Australian carpet manufacturers have reached accord (see page 5), but the trans-Tasman arrangement for apparel is in tatters — and unlikely to be patched up in the near future.

But the New Zealand garment manufacturers regarded it as an "unsatisfactory arrangement anyway".

They maintain that this time the Australians went too far, and asked for an "unreasonable degree of share in our market" while they cut back on New Zealand's access to theirs.

Textile and Garment Manufacturers' Federation president John Penney said: "There is no possible way of us continuing the arrangement on the basis they want."

[illegible] on-demand arrangement for apparel into New Zealand. New Zealand will lose its special quota into Australia and be forced on to a global quota.

The rift between the two groups could cost the New Zealand manufacturers up to $15 million in exports to Australia — and perhaps a similar amount for the Australian manufacturers.

But it is likely local manufacturers will get some exports into Australia through the global quota system.

Sources in the trade say they had been forced to use global quotas before the talks broke down in Canberra last week, because Australian importers with special quotas for New Zealand clothing in many cases "just let them lie".

The clothing manufacturers have been battling out the issue since 1977, when the lid was brought down on New Zealand's previously unrestricted access to the Australian market. Since then New Zealand has been on a quota system, which industry sources claim has barely amounted to 1 per cent of the total Australian market.

Local manufacturers have complained that the Australians have adjusted downward some categories where New Zealand could compete.

Earlier this year the New Zealand Government cancelled import licences which provided Australian manufacturers with 4 per cent of our market because local manufacturers complained that Australian clothing imports were threatening workers' jobs and having a disruptive effect on the market-place.

The Australians retaliated with a warning that New Zealand apparel manufacturers would lose their quota if the arrangement was not successfully renegotiated.

After what was reported as some "tough" talking by Trade and Industry Minister Lance Adams-Schneider on behalf of local manufacturers last week in the Nafta negotiations the temporary arrangement collapsed.

Adams-Schneider said he had stuck to the brief he had from the manufacturers and the Government.

Erebus books

THE race is on to be first out with a book on Air New Zealand's Mt Erebus crash.

Whitcoulls is publishing a book by aviation writer Ken Hickson titled *Flight 901 to Erebus*. It is waiting for the final report from the Commission of Inquiry into the crash before publishing.

Martinborough publisher Alister Taylor is understood to be on the verge of releasing his book, *White Out*, written by freelance journalist Michael Guy.

Taylor sent a lawyer to the United States last May in an unsuccessful attempt to gain information on the crash by using American freedom of information laws.

The Americans had cleaned out their files lodged at the FAA and National Transportation Safety Bureau and sent them to Air New Zealand, so there was no information to be retrieved under the American laws which guarantee the public's right to know.

It is understood the American Authorities feared legal repercussions if they were forced to release the information.

The week

Adams-Schneider endorses carpet accord

by Rae Mazengarb

THE inter-industry agreement between carpet manufacturers on both sides of the Tasman has finally been approved by Trade and Industry Minister Lance Adams-Schneider.

The agreement is along the lines originally proposed by New Zealand and Australian carpet manufacturers.

Last March they agreed to a deal strongly in our favour allowing 2.1 million square metres of New Zealand carpet into Australia and 400,000 square metres of Australian carpet into New Zealand.

Originally due to become effective on April 1, it hinged on a gentlemen's agreement between the two carpet groups not to export synthetic carpets into each other's markets.

But a non-member of the Carpet Manufacturers' Federation, Stevens-Bremner, was not bound by the gentlemen's agreement. It is anxious to make synthetic carpets to make better use of its under-utilised $6 million Millitron jet-dyeing machine at Foxton.

How the agreement will be enforced to prevent Stevens-Bremner from exporting synthetics to Australia is now subject to speculation. The two extreme forms of restraint are voluntary restraint or export prohibition.

It is understood that even without knowing the fine detail, the carpet industry is delighted with the decision.

The delays had placed a cloud over New Zealand's access to the Australian market.

But speculation continues over Stevens-Bremner's position in the industry, and the extent to which it must sell synthetic carpets to revive its flagging fortunes.

Stevens-Bremner managing-director John Roy has instructed Foxton office staff to sell off Foxton properties which are "excess to (the company's) requirements".

Thirty-four acres of farmland fronting State Highway One were due to go under the auctioneer's hammer last Friday. It is understood further sales – including some 10 acres of prime industrial land and three dwelling houses – will take place soon.

Roy said there was no particular reason why the land was being sold off at this time. He pointed out that the public auction was advertised "many weeks ago", and the land had been lying idle ever since it was bought by Stevens-Bremner about seven years ago.

The land had been used by its previous owners for a flax business.

Why wasn't it sold off years ago? "I wouldn't have a clue," Roy replied.

The property auctioned on Friday was advertised as having "the tremendous advantage of almost perfect position which can be applied to many and varied opportunities that the land provides."

Roy said he hoped the land would fetch around $70,000, though the demand for property in the area was "quite low". Sited opposite the racecourse, the land would be ideal for training race horses, he suggested.

But the property was insignificant compared with other land and plant owned by the company, he said.

Meanwhile, the Millitron has run into trouble in Europe.

Eutron became a Millitron licencee in 1976, about the time Stevens-Bremner got its sole Millitron licence.

New Zealand carpet companies have been approached to buy Eutron's Millitron machine. But local feeling is that if the Millitron failed in the strong European market, it would be bound to fail here.

Other European Millitron licencees are Shaw of Britain, Egetarpper of Denmark, and Heuga of Holland.

Eutron, a Belgian company, became the Millitron licencee to do commission tufting and printing.

Trade and Industry Minister Lance Adams-Schneider urged carpet companies to become involved with Stevens-Bremner on a similar basis here. But UEB, Feltex and Cavalier, advised him against the Millitron and would not send their carpets to Foxton to be contract dyed by Stevens-Bremner.

Australians annoyed by tardy allegations

by Colin James

AUSTRALIAN officials are perplexed and annoyed at suggestions from Wellington that Australia is dragging the chain over the talks on a closer economic relationship.

On the eve of last week's annual ministerial Nafta talks which were also intended to review progress on the wider issue, the comments were seen in Canberra as undermining the constructive atmosphere developed in the March prime ministerial talks.

Australian officials have flatly denied any suggestion they are unwilling to make progress – and claim it is in New Zealand that delays have been occurring.

They suspect New Zealand is trying to put pressure on Australia in the forthcoming talks – but are perplexed as to what the pressure is intended to achieve.

The Australian annoyance was roused by an article in the weekly *Trans-Tasman*, part-owned by the *Auckland Star's* Ian Templeton.

The article talked of an "intransigent attitude in Canberra" and reports that Australian ministers have told officials to make their negotiations with New Zealand counterparts as difficult as possible.

Then at the National Party conference Prime Minister Robert Muldoon said that: "Australian officials and the Australian manufacturers are tougher today than they have ever been in terms of Nafta.

"It does not augur well for the broader-based scheme that we are trying to put together."

Australian officials in Canberra have insisted – some in anger and some in sadness – that there has been no go-slow instruction from ministers on Nafta or the broader-based talks.

Far from it being Australia's attitude that may jeopardise the talks, they say, it is comments like those from Wellington.

My own discussions in Wellington and Canberra suggest that preparatory work on the broader arrangement has been further advanced in Canberra than in Wellington.

But in any case, progress at last week's talks was bound to be circumscribed.

The work was not as far advanced as was originally hoped for at that stage.

In March there was hope that both sides would be ready to exchange tentative lists of products for the three "boxes" (duty-free, automatic phase-in to duty-free and "too-hard"). But this did not eventuate.

Apart from that, the Fraser Government has been in the final months of a run-up to an election and, if the shelving of uncomfortable reports on textiles, clothing and footwear is a guide, it is likely not to want to take bold initiatives before that is out of the way.

James filed this report before last week's Nafta talks.

Paper loses its family tradition

PALMERSTON North's evening newspaper, the *Manawatu Standard*, will celebrate its centenary in November with a special tabloid and a party for staff and local dignitaries.

The festivities will mark not only a new beginning for a new technologically revitalised paper with rising circulation, but the end of a tradition.

For nearly 100 years, the *Standard* was owned by the Nash family.

The last of the line, John Nash, resigned as board chairman when Independent Newspapers Ltd bought a 25 per cent interest in the paper some six weeks ago.

Nash was replaced by Hugh Morrison, an accountant with Barr Burgess and Stewart and the first non-family member to become a director.

It is understood the *Standard* got itself into liquidity problems when faced with the high costs and interest rates needed to make the leap into new technology such as a computer for its cold-type system and accounts department.

It is also understood that fresh capital injections were sought from papers in the north. The invitation was finally taken up by Wellington-based INL (which owns the *Dominion*, *Evening Post*, *Truth*, *Sunday Times*, *Sunday News* and *Waikato Times*).

Nash was not prepared to comment. "Leave me alone, will you," he said.

INL managing-director Alan Burnet said his company had taken an interest in the *Standard* because INL saw it as a strong provincial paper and a good investment.

This isn't INL's first foray into Palmerston North. It took over the *Manawatu Times*, only to close it down in 1963.

Comment

Editorial

THE Labour Party's official policy is against nuclear power generation. But ironically, its attitude to the energy-intensive projects being fostered by the Government — appraised alongside its promises of cheap power for South Islanders — must make the need for nuclear generation even more inevitable than National's policies.

All the Government's schemes for aluminium smeltering based on cheap electricity have been decided. That was the time for Labour to say if it regarded them as good schemes or bad ones. But officially, Labour is not saying anything much.

Party Leader Bill Rowling has said that a Labour Government would not stand in the way of a second aluminium smelter in the South Island provided it was satisfied the deal was in the interests of the country.

Rowling at least wants some hard facts about the schemes — for example, the price of electricity negotiated, the number of jobs which would be created, the extent of Government contributions in the form of incentives and allowances, and the security of alumina supply. Labour must be satisfied with the answers to those key questions he said. "If those points can be answered in the interests of Otago, the South Island and New Zealand, then there is no way that a Labour Government will seek to stand in its way." But there must be a right to review the final deal in the future.

At the same time, Rowling said a Labour Government would offer South Island consumers — domestic as well as industrial — a 25 per cent cut in the price of bulk electricity.

The Rowling statement is understood to be considerably milder — and more negative — than was previously agreed by the Labour Party Policy Council.

Some council members are apparently upset that their leader departed from a harder stance. Rowling, of course, seems to recognise that Labour will lose seats down south if it goes against the smelters.

By considering its prospects in the south, Labour stands to lose in the north because its policies will be indistinguishable from those of the Government.

Labour has been unable to shape a distinctive programme to create employment. Without viable alternatives the big companies and their smelters look like our best bet. But Labour must stand or fall on its employment policies, and if the opportunities it offers are the same as those being offered by National, it can gain no political advantage.

Recognition of the employment opportunities that must flow from the smelters will significantly affect union attitudes in the south, where the Mosgiel Group's difficulties typify the uncertainty for those seeking jobs.

The trade union position becomes particularly piquant as the smelter proponents point to these employment opportunities. The official FOL line is against multinationals. It has pledged to fight the takeover of the country by overseas giants. But when it comes down to brass tacks, local trade union interests are bound to prevail.

Yet by accepting the energy-intensive smelter industry path to more jobs, Labour is showing that it wants the best of both worlds. Not only has it given qualified approval to the smelters, it has also offered an across-the-board 25 per cent reduction in energy prices, to South Island consumers. Energy Minister Bill Birch no doubt could point out that this is a promise Labour cannot fulfil if it wants smelters, too. He knows that while it appears the Government has been selling at bargain-basement prices an excess of electricity, the Government must speed up power station construction. As he pointed out, after the agreement with the Fletchers consortium was signed, the Government must finish the Clutha and other projects. These projects — which had been shelved when it became apparent New Zealand was going to have an electricity surplus — would be reactivated to meet the power commitments made to energy-intensive industries, he said on July 1. "A sense of purpose will be restored to power development," were his somewhat ominous words (ominous, at least, to a public which must foot the bill for providing the wherewithall for the smelter projects).

Immediately, this means the completion of the Clutha scheme by the late 1980s and a commitment to the Ohaki geothermal power station. Waikato coal resources would be assessed for use for thermal power in the north and two oil-fired power stations at Marsden Point would be reassessed, he said. Such projects would involve commitments for the next 25 years.

Unlike Rowling — significantly — he discounted suggestions that electricity concessions might be offered to South Island domestic consumers, but said he believed that electricity prices had reached a level of "long-term stability" with annual adjustment to compensate for inflation.

This all makes clear that there is no cheap electricity. And if there is, it won't be cheap for Fletchers and Comalco.

Thus a Labour Government is bound to hasten an era of power shortages if it supplies the smelters with electricity but stimulates domestic demand by offering cheap power to South Islanders. Its attitude is incompatible with any promise that there would be no nuclear power under a Labour Government before the end of the century. It can supply the multinational consortiums for their smelters, or it can give South Islanders cheap power and will generate their own industry and job opportunities. But Labour must make up its mind on one option or the other if it is to forestall the nuclear power age.

— BdE

Without word of a lie

The best laid BANZ of mice and men . . .

FUNNY how things change in four months. At the end of July the Government announced it was tryint to sell its shareholding in Bahrain Trading and Storage Company (BANZ) to the Bahrain Government.

Previously our rulers said they wanted to sell the shares to New Zealand organisations.

Changing patterns in shipping transport to the Gulf, including the use of refrigerated containers and double handling in Bahrain of cargo to other destinations, were part of the reason for the venture's problems. So it was intriguing to read the annual report of the New Zealand Export/Import Corporation for the year ended March 31, when it arrived on the desk last week.

Referring to BANZ, the report says: "It is the intention that the New Zealand shareholding, which is currently held by the corporation in a caretaker capacity, should be transferred to a New Zealand company, BANZ Holdings Ltd, and the shares in this company be offered to New Zealand companies wishing to become associated with the undertaking."

"The project was completed and officially opened in October last. While some early problems have arisen, *it is anticipated that these will be resolved and that the facility will provide a valuable means for the development of trade with the region*" (NBR emphasis).

Ah well, the corporation was reporting on the events of the 1979-80 year, but it must be embarrassing to produce these words in July/August when the deal has turned out to be a flop. Perhaps the proofs of reports could be read more carefully in future before they go for final printing.

Beware crazed consumer faced with free choice

THE Kiwi consumer is obviously a pathetic creature who cannot recognise his own best interests.

The Government is removing cinema licensing controls to allow a breath of competition into the Kerridge-Odeon-Amalgamated Theatre's monopoly. But listen to the squawks of protest.

Kerridge's Larry Vells is quoted in the *Auckland Star* saying "I'll open the field to fly-by-night operators using 16mm films and inadequate facilities". Other critics claim it will cause small theatres to close.

So Government adopts a free enterprise stance and with a mere stroke of the legislative pen the consumer becomes an irrational idiot. No longer forced to patronise Kerridge or Amalgamated theatres, he will plump for 16mm movies and inadequate facilities and the better class of theatres will go broke!

Perhaps we should legislate again to make weekly theatre-going mandatory. There's no telling what the crazed consumer might do given the freedom of choice.

Brockie's view

Fiscal fiend fetters ex-Christchurch tourists

THE fiscal fiend's fangs are going for the international traveller's jugular with the 5 per cent domestic travel tax. And Air New Zealand is not pleased.

The Government-owned airline is at loggerheads with Customs over the taxing of the Christchurch-Auckland sector of the Christchurch-Los Angeles flight.

A person bound for Los Angeles from Christchurch pays the same ticket price as the passenger from Auckland. In effect, the Christchurch-Auckland sector is free.

And 5 per cent of nothing is zero — or so Air New Zealand sees it.

But Customs want the Christchurch-Auckland sector taxed as an internal flight because the passengers do touch down in Auckland. Customs wants the tax levied on a "paper figure" for the free sector.

Air New Zealand can now pass off the tax to the traveller — disadvantaging Christchurch as a tourist destination — or absorb the tax itself, incurring a loss on the deal.

STOP PRESS: The lighthouse keepers' decision against turning out their lights tonight in a protest action over the ... ing programme was taken after our article on Page 17 had gone to press.

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Comment

Leaks to the media by state servants bring benefits

by Warren Berryman

LEAKS to the news media by civil servants concerned with political favouritism and irregularity have finally borne fruit.

After more than two years of denials, no comments, witchhunts and rebukes of investigative journalists, Trade and Industry Secretary Harry Clark has admitted that one of his senior officers failed to act within policy in the issuance of import licences.

His department was acting to rectify the situation, he said.

This frankness was precipitated (presumably) by Mr Justice Quilliam's lifting the suppression order on the three trials of Brian Pound.

Pound was not convicted. But evidence at the trials showed that import licensing procedures — always shrouded in secrecy — were susceptible to corruption and favouritism because of broad discretionary powers to grant or withhold import licences.

Long before Pound was charged, *National Business Review* offered Clark the opportunity to make a full statement of the Pound affair, balancing the negative side with a full account of efforts by Trade and Industry's Derek Homewood to clean up the system. Clark declined.

In November 1978, Clark was to address the Plastics Institute in Auckland. He refused to speak to the meeting if I was present.

Asked why he took that stance, Clark indicated he was far from happy with the way TV One reporter Spencer Jolly and I handled the investigation into National Party MP Ray La Varis's import licences. Like Prime Minister Rob Muldoon and Trade and Industry Minister Lance Adams-Schneider, he accused us of "harrassing" his officers. (*NBR*, Nov 8, 1978).

During a discussion with me he remarked that neither Jolly nor I could crack a real Watergate, hinting there was something going on we did not know about.

Harry Clark . . . admits that one of his senior officers failed to act within policy.

He was then told — to his obvious surprise — that we knew all about Brian Pound, but we also knew that Homewood (known to his subordinates as a "tough, honest cop") was acting to clean up the department.

That story, I suggested, should contain both the good and bad sides from the department's point of view, and I asked if Clark would be willing to supply details of the departmental clean-up.

Clark said he might be more willing to talk if the reporters were of the "co-operative" sort, mentioning a senior Parliamentary Gallery journalist who might be emulated.

I suggested that Jolly and I had been doing well enough without being compromised or suborned by politicians or civil servants. We wanted to keep it that way.

On that basis, Clark seemed unwilling to continue the discussion.

During 1977-78, a joint TV One-*NBR* investigation into import licensing uncovered and published details about Ray La Varis and the handling of special trade licences.

During the investigation, details concerning Brian Pound and other import licensing matters were uncovered but — because of our defamation laws — not published.

The reporters were publicly castigated by Muldoon and Adams-Schneider.

The Trade and Industry Department launched a far-reaching witch-hunt to find who leaked information.

The Ombudsman's report showed there was no suggestion any of the information we had published was incorrect.

During the La Varis affair — but before the Ombudsman reported — Adams-Schneider told a press conference: "I want to make it quite clear I have every confidence in the integrity of my officers as far as import licensing applications are concerned. I'm party to a great deal of secret information by firms who make application. The department was concerned about malpractices in import licensing.

"These things are done fairly. And I've worked with them for some 10½ years as Under-secretary and Minister and I've not found any malpractice in the department or any lack of fair treatment as from one importer to another."

About that time, *NBR* was informed by junior and senior Trade and Industry officers that the department was concerned about malpractices in import licencing.

NBR asked Adams-Schneider if he did not think leaks by Government employees provide a check on possible abuses of Governmental power.

"Emphatically no," Adams-Schneider said.

Harry Clarke's recent frankness just might be a sign of more open administration to come.

But if there are any heroes in the shabby events of the last few years, they are the sources of the information that enabled us to publish the articles that led to the Ombudsman's inquiry and the Pound trials. They were civil servants who were concerned at what was going on in the department and — at the risk of losing their jobs or, worse, being jailed under the Official Secrets Act — acted to give import-licensing administration a public airing.

The reporters had nothing to lose by investigating the matter and publishing their stories. The whistle-blowers — immediately embroiled in a witch-hunt — had everything to lose.

Warren Berryman, *NBR*'s Auckland reporter, led this newspaper's inquiries into the La Varis affair.

Balancing budget of household needs

by Suzanne Snively

THRIFTY households have traditionally been the bulwark of our economy. While businesses undertake risky ventures and governments apply deficit financing, prudent householders try to organise their affairs to make ends meet until they meet the end. If present economic trends continue, though, even careful households will face the prospect of going into debt.

Households are finding it increasingly difficult to make ends meet. This conclusion can be drawn from information about household expenditure surveyed by the Department of Statistics for the year to March 1980.

Average weekly expenditure for households responding to the Household Survey was $202.06 during March year 1980. In contrast, average weekly earnings in February 1980 were $180.13, according to the quarterly Labour Department labour force survey. Average weekly earnings calculated over the whole March year were lower, at about $160.

	1978/80
A Household Spending[1]	$202 06
Average wage[2]	180.13
less Tax[3]	44.00
B. *Disposable income*	136.13
C. *Household's budget deficit (A-B)*	65.93

1 *New Zealand Household Survey*, Department of Statistics (March years)
2 *Quarterly Labour Force Survey*, Department of Labour (February).
3 1979 Budget

So, last year an average household with a single earner, on the average wage would have spent at least $12.00 more per week than it gained from current earnings.

Taxation makes the gap much bigger. When personal income tax is taken into account, the amount of income provided by an average earner is nearly $66 less than the weekly expenditure of an average household.

It is not strictly accurate to compare average household expenditure with information about average weekly earnings. A clearer picture of households' financial positions would emerge if the household survey recorded average household income as well as average household expenditures.

This information might be provided when the Department of Statistics publishes further household survey results, together with concepts, collection methods and details of the sample design, at a later date.

Meanwhile the department notes that each household surveyed last year contained an average of 3.12 persons and 1.75 income earners. Expenditure information was collected from 4019 households.

Information about the incomes of secondary earners in the households is not provided but the existence of more than one earner casts a different light on a simple comparison between the average weekly wage and average weekly household expenditure.

A case can still be made that average households are having difficulty making ends meet.

By far the largest proportion of households in New Zealand are family households with two parents living at home and rearing children. Brian Easton has studied the economics of families in *Social Policy and the Welfare State in New Zealand*. Easton reports that "most mothers work part of a year, but few seem to work full time for a full year. The evidence points to one and a bit income family."

The additional 75 per cent of an earner, in a typical household, is unlikely to earn anything close to 75 per cent of income of the primary earner.

To close the gap between average household spending and an income from a primary earner on the average wage during March year 1980, the secondary earner in the household would have needed to earn at least $66 after tax. Secondary earnings are subject to tax and earnings above $25 per week lose the spouse rebate and single income family rebate worth about $12 per week. An after tax income of $66 for a secondary earner requires gross earnings of nearly $88 per week. Or in other words, the secondary earner would need to work enough hours to earn about half the average wage. Since part-time work usually pays a lower hourly rate than full-time work, they might need to work up to 30 hours per week to earn this amount.

A better perspective could be gained about how well households are faring if there was information about the proportion with average and below average incomes. The most recent data on household income distribution is contained in the 1976 Census and the most recent data on individual income distribution in the 1976/77 income tax statistics. A lot has happened to the economy since then.

With our recent experience of high inflation, high interest rates and low economic growth, even households with above average incomes are likely to have increasing difficulties balancing their expenditure with income.

Suzanne Snively is a tutor in economics at Victoria University of Wellington.

Letters

Encouraging alternatives

YOUR editorial (*NBR* July 21) underlines a number of factors associated with the alternative fuel programme for motor vehicles which are vital, if transport is to take optimum advantage of available indigenous fuels.

The need for greater incentives for both users and sellers of alternative fuels for motor vehicles is paramount. Clearly it is in the national interest that some firm encouragement be given to motorists to use CNG as a vehicle fuel to replace as great a percentage as possible of imported petroleum.

This would be a positive step towards meeting the Government's own target of having 150,000 vehicles converted to CNG by 1985.

There is also a need for greater encouragement for the motor trade to diversify into the retailing of compressed natural gas, alongside traditional liquid fuels. Some expansion of the present cash grants and tax benefits available for the establishment of CNG refuelling stations would heighten interest in the establishment of further stations.

The role of the gas industry is as the bulk supplier of gas to existing fuel outlets and not as a retailer of these alternative fuels.

Natural gas itself (from which CNG — compressed natural gas-derives) is not in short supply. One of the world's largest offshore fields — Maui — is on our doorstep.

At this stage some areas are better served than others with CNG refuelling stations, but greater coverage will develop, particularly if additional incentives can be provided. In some Auckland areas such as the North Shore, the private motorist is already well served by both refuelling stations and conversion specialists.

The road user tax which gas fuelled cars need is $6.70 per 1000km but given the low cost of CNG compared with petrol, it is still an attractive financial proposition to operate a dual fuel vehicle.

What does need considerable improvement and streamlining is the issue of the road user tax licences by the Post Office. At present considerable paperwork is involved, but it should be as simple as buying a postage stamp.

There is no doubt that CNG and other alternative fuels will become increasingly important to the New Zealand motorist, whether private or commercial — both as a means of reducing overall motoring costs, and in reducing the country's dependence on imported fuels.

D J Anning
General Manager
Dual Fuel Systems (A'sia) Limited
Auckland

Considering superannuants

ACCEPTING that my writing is not easy to read, I am having this letter typed lest mistakes similar to the four that found their way into my letter in your issue of July 21 are made in this follow-up.

For the record, I said "drip-feed", not "whip-feed", is typical Muldoonism: I hope I spelt "minuscule" and "punitive" correctly; and I hope I said "internally", not "internationally".

In the same issue of your most useful publication your Economics Correspondent quoted a table showing annual price increases for individual consumer items and said that this showed prices had risen by 17.9 per cent.

However, if one accepts that superannuants will spend far less proportionately on footwear, on household furnishing and services, on clothing and on housing, all of which are at the lower end of the table, then their cost of living increase is nearer 23 per cent.

Fuel and light at 31.9 per cent and transport at either 24.7 or 23.1 per cent loom large in the budgets of many older people, as do most food items, so the statistics need very significant adjustment when relating them to the needs of senior citizens.

Therefore, in my submission, superannuants need far greater consideration than they have been getting recently and, apparently, are likely to receive in the future.

Name and address supplied

Public sector computers

"THE New Zealand Computer Society is pleased to see that the Controller and Auditor-General in his report on *Use of Computers in the Public Sector* supports what we (as computer professionals) have been saying for some time. We have always emphasised the importance of all users realising their responsibilities in the design and implementation of computer systems, which after all are but another management tool.

The comments on the Health Department computer system which have attracted most attention are certainly of great interest, but concentration on this system should not prevent consideration of the general problems throughout the public (and private) sectors. The difficulties experienced by the Health Department are symptoms of the problem as a whole.

Computer systems help management. If management are unhappy with the results of their computer systems, they are probably right and if the system does not provide what they want, it is usually their fault.

Successful projects need both skills in project management, and knowledge of the environment that the system will serve. Both are available in New Zealand. Admittedly there will be some areas where we in New Zealand lack specific experience but the hallmark of a professional is that he knows what he doesn't know — and where best this knowledge can be obtained.

Getting a particular specialised skill from outside New Zealand does mean that the whole project must be taken over by outside interests.

The Auditor General's report rightly emphasises the need for high ethical standards and professional integrity. Our members subscribe to a code of ethics, and this is a condition of society membership. We have established a position on privacy of personal information and comment publicly on breaches of this. We welcome the suggestion that privacy must be legally protected and will assist wherever we can to have this done. We have shown how computers can assist in meeting peoples' desire for freedom of information. We are at present working on a "Code of Good Practice" and provide guidance to our members in this area.

Computers do what they are told but who does the telling? This is an issue New Zealanders as a whole must decide. Implementation, on the other hand, must be carried out by practitioners in whom the public has confidence — something we in the Computer Society hope to foster.

I W Lauchlan
President
New Zealand Computer Society

Project profit goes private

I READ your piece on Bill Birch's attitudes to the MOW special projects section (*NBR* July 21) with interest. Mr Birch feels that its work should be restricted to projects which private firms could not handle — such as new technologies associated with energy development.

Or to put it more crudely, the taxpayer takes the risk and the private sector takes the profit (if any).

Peter Hadson
Dunedin

Politics

In spring a voter's fancy lightly turns . . .

by Colin James

A YEAR ago Social Credit was riding high on the way to its conference. Nothing was impossible after the Christchurch Central by-election triumph of pushing National into third place.

Since then, grim reality has intervened in the shape of the Onehunga and Northern Maori by-elections. Far from showing the league on track towards its 26 per cent target in next year's election, they suggested it was back roughly where it was in 1978.

So it will not be such a cocky bunch of Social Crediters that will go into their conference at the end of this week — or into the East Coast Bays by-election.

East Coast Bays was one of the ring of outer-suburb Auckland seats that polled relatively well for Social Credit in 1978. Its share of the vote leapt from just over 5 per cent to 20 per cent, from 969 votes to 4448.

East Coast Bays, you will remember, was the seat that set a new fashion in New Zealand politics, with a "National Alternative" candidate put up by Nationalists who did not like Frank Gill, particularly his conservative abortion stand in a liberal area.

Their relative success ensured he would not be the candidate in 1981.

But exactly what effect it had on voting patterns is not known. Judging from neighbouring Albany, where the Social Credit vote went up from just under 9 per cent to nearly 20 per cent, the league did better in East Coast Bays than might have been expected.

Therefore it might be able to shed a few percentage points and still lay legitimate claim to holding its 1978 position. But anything under 15 per cent would not look good.

There is, however, one cause for hope for Social Credit. This is the first Government seat to go to the polls since the election. Despite the artificially low 1566 majority in 1978, it is not really winnable for Labour.

Social Credit might there expect to do better out of anti-Government mid-term protest votes than it did in Onehunga.

If it does not, if the Social Credit vote again confirms the stayput or slightly declining trend the Heylen-*National Business Review* poll is indicating, the implications for future morale will be gloomy.

It would tend to support what the polls have been hinting at throughout this year — that next year's election, only 15 months away, will be between National and Labour.

I use the words "tend to" and "hinting" advisedly. No trend is safe, it seems, at this point in a parliamentary term.

It was in the last three months of 1974 that the bandwagon began to roll for National towards its remarkable election victory. It was in the last three months of 1977 that Social Credit began its remarkable climb from 7 per cent to 16 per cent in the 1978 election.

It is notable also that it was in September-October last year that in the Heylen-*NBR* poll National bottomed out from an 18-month decline to begin a hesitant recovery and that Labour reached a plateau (perhaps a peak — it is too early to say).

It seems that in spring a voter's thoughts become a little fancy-free.

The next three months, then, may well give some useful pointers towards the election.

Who knows, Social Credit could pick up again, break through the 20 per cent barrier and throw the whole game wide open. It cannot be ruled out, especially since in each of the past three years, spring has been kind to the league.

But there is some reason for believing it will not happen this time.

The reason centres principally on the changed nature of the National Party.

Much of the adverse comment about the National Party from 1978 deserters was about the party's drift from its philosophical roots.

Economic strain prompted Nationalist voters to take a less tolerant view of the welfare state and Government regulation and climb on board the back-to-freedom (from taxes and state interference) vehicle.

This drive has been well argued within the parliamentary National Party and, coincidental with the apparent ascendancy of the new breed there, the party's poll fortunes have been improving.

Social Credit's scope for continued large-scale conversion of Nationalists on party philosophic grounds on the 1978 model therefore seems limited.

The other main ground for National desertions to Social Credit in 1978 was the Government's failure to deal with unruly unions.

But as long as Labour remains within striking distance of National in the polls (in contrast with 1977-78), the is an unlikely large-scale source of Social Credit conversions, since putative deserters are more likely to regard a Labour Government as even less likely to keep the unions in check.

Which brings us to Labour.

A year ago I wrote that Labour was wallowing in the sort of inertia that, if not corrected, would make it a nightmarish Government in 1981. On the face of it, things now look even worse: resignations, sackings, tactical feet falling over egotistical feet.

Can Labour do something to seize the initiative in the next three important months?

It will almost certainly not get itself another leader as National did in 1974. (The "almost" is there to allow for the always-present possibility of a boil-over of anti-Rowling feeling or an accident at the hands of a big red bus — in which second case, do not rule out a carefully repackaged Arthur Faulkner taking over.)

So what else could Labour do?

Publicity initiatives? The East Coast Bays by-election should be — but, unless there is a turn-up in the August poll figures to be published this week, may not be — a good springboard for an end-of-year campaign as Social Credit did in 1977.

Policy initiatives? There is no strong evidence yet that the party has got together enough systematic new policy to present a revitalised image.

But there has been some fundamental rethinking going on in some key caucus (MPs) committees.

In the economic field this rethinking has been realistic and relatively sophisticated, setting parameters for policy development that, if followed, should ensure the romantic, expansionist mistakes of 1973-74 would not be repeated by a 1981-84 Labour Government.

It has also brutally reassessed traditional Labour dogma and proposed some radical solutions of a sort that George Chapman would have to examine minutely to find signs of the "lurch to the left" he is fond of imagining for Labour.

(I am sorry I cannot give you hard evidence for what I am saying. Labour's belief in the open society is not yet sufficiently developed for that. You will have to take me on trust.)

How far the official policy will dare to echo the innovation in the preparatory work could not be known at the time of writing. Given past history and present caution, one might surmise: not very far.

But do not rule out radical economic policies. There is a sense of urgency among younger MPs in key positions that there has not been in the party since perhaps the 1930s.

They argue that a do-nothing approach hoping to offend nobody will end up offending everybody and turning a 1981 Labour Government out again in 1984.

There is a school of thought in the party that would rather lose in 1981 than go into power without a bold, coherent policy. Action, not reaction, is their credo.

That school, however, comes up against another hard reality: National's development programme.

Leave it till 1984, just to get the policies right, and New Zealand will be so committed to the energy-intensive, capital-intensive rapid industrialisation policy the present Government favours that alternative policies, no matter how well thought out, will be difficult to introduce. National wants to hold power in 1981 for just that reason.

Labour is groping towards a small, labour-intensive, local-resource-intensive development strategy, heavily relying on small operators for its driving force (still a touch of Kirk romanticism?).

The two approaches are mutually incompatible. Whoever wins in 1981 may well have the power to shape the development path for the rest of the decade.

Chapman has recognised that and started making speeches about it. Harder heads in the Labour Party have, too.

Both will make much of it next election time, for once able to parade clear distinctions.

And they will be right. The election will turn mostly on other matters — leadership, inflation, the degree of resentment at the welfare state, the unions (patronage?).

But its real importance will be deeper than those issues. It may well prove the most important election since 1935.

Arthur Faulkner . . . might be rapackaged

Economics

Options on the path to a better world

Economics Correspondent

ECONOMICS is about making the best of all possible worlds. Trouble is, most of us find it difficult to think in detail about any world other than the one we live in. So economic arguments that show that it is possible to be living in a better world seem esoteric.

Economists such as Geoff Bertram of the Coalition of Open Government and Professor Paul van Moeseke of Otago University say we can probably put our resources to better use. But the Government's experts seem convinced that expansion of the aluminium smelting business here is innately desirable.

Is the smelter industry the only development opportunity in the national interest which exists? The Government fears that attempts to drive a hard bargain with developers over the price of power and the number of jobs provided involves the risk that we might lose the opportunity to have any development at all.

In other words, we have no alternative but to let the aluminium industry expand, whatever the costs and benefits. Apparently there is no other development option crying out to buy cheap energy to provide a few more South Island jobs. Perhaps everybody has heard about Dunedin's weather.

Economists who question the innate desirability of the smelter have been put in a no win situation. They cannot know the true story about the smelter because all the important figures about smelter development are confidential to the Government, Fletchers and Comalco. By trying to make the Government more accountable to its taxpaying public, these upstart economists are portrayed as the destroyers of our only development opportunity, and as undermining the viability of Dunedin and Otago.

If there were no other development options, the opportunity cost (the cost of alternative options foregone) of the smelter is not zero. Without smelter development our future domestic energy bill would be lower and the Clutha would retain its natural splendour.

But the idea that there are no other development options bears investigation. Millions of dollars of taxpayers money is spent on groups commissioned to plan our future. We have the Planning Council, the Commission for the Future, the Prime Minister's office, the Department of Trade and Industry, the National Advisory Council, the universities, Treasury, the Economics Division of the Reserve Bank and others.

It's hard to believe that the expansion of the aluminium industry is the only bright idea for generating economic growth to have come forward.

In its recent publication, *Investment Issues*, the Planning Council noted that "the new energy developments will directly create comparatively little new employment. Construction and installation of the main plants may require two or three workers per $1 million of investment . . . there are doubts about the availability of construction workers with the required skills . . . High capital costs put the enterprises concerned at a competitive disadvantage in international trade and have adverse effects on their domestic customers."

The Planning Council does not suggest other alternatives, concluding that "emphasis should be on improving the climate for investment . . . not trying to force investment into particular channels".

One group which has been testing alternative growth strategies is Victoria University Professor Brian Philpott's project on economic planning (PEP). Two widely different scenarios for 1984 were produced, using the PEP economic planning model, as part of a manufactured exports research programme. The first scenario was based on the development of our energy resources. The second was based on a survey of manufacturers' export expectations.

In the first scenario, manufactured exports were assumed to remain at around the present proportion of output. New energy developments included the proposed Maui natural gas uses in industry and transport, development of Maui II and oil refinery expansion. The Comalco and Fletcher aluminium development plans were not known when Philpott's model was run late last year, but these are likely to make little difference since they will only be starting to produce by 1984.

The possible result of energy concentrated development is a slow increase in economic growth, a recovery in investment activity to around 25 per cent of national output, a low growth in private consumption spending – low enough to bring community and labour unease and unrest and unemployment rising possibly to 80,000 by 1984.

In the second scenario, manufactured exports were assumed to increase faster than growth in output. This produced much more encouraging results. There was a strong possibility of economic growth rising to just under 4 per cent by 1984, investment growth at about the same level as in the energy development scenario, a healthy lift in consumption, a rapid pace of export growth, employment growth of just under 2 per cent per year (1 per cent in the energy scenario). Unemployment would fall to about 25,000 by 1984.

The PEP results point to the need to strengthen our local manufacturing industries so that they can be competitive locally and internationally, in order to avoid continuing and even worsening economic pain.

The PEP research programme has been concerned solely with the five year period to 1984. This puts the advantages of energy development in a bad light since much of the energy investment for this five year period is non-productive within the period.

Geoff Bertram . . . better resource use.

Brian Philpott . . . taste alternative strategies.

Further work on the model is currently being done. It would be interesting to see what economic conditions would prevail during the 1980s when the small energy surplus that now exists was priced so that domestic manufacturers were encouraged to expand their output of energy intensive goods, including those for export. It is possible that this scenario would produce higher economic growth at less cost to local consumers in terms of employment, energy price, export incentives and investment allowances than a scenario which expands energy developments to include the Comalco and Fletcher aluminium development plans.

A major advantage to be gained from an expansion of local manufacturing is that any returns from increased economic growth would be shared equally among the population.

Instead of 1200 new jobs, there would be at least 25,000. As most of these jobs will be created for locally produced skills, it will not be necessary to import as many specially skilled tradespeople as in the case of the aluminium developments.

Any future growth will require growth in private consumption to be slow enough not to hinder investment growth. This precondition will be forced on the population at large if we put all of our resource eggs into the energy development basket. If instead we concentrate on expanding our manufacturing base, most of us will see some increase in our standard of living before the energy projects have time to take off.

Because the PEP exercise reported above was undertaken before the latest developments on the energy scene, it does not provide a definite comparison between a concentration of our investment potential in energy or in a wider manufacturing base. But the PEP results certainly suggest that expansion of the aluminium industry is not our only option.

US trade balance

AMERICAN imports exceeded exports by $2280 million in June, bringing the total trade deficit for the year to $21,600 million (compared with a deficit of $17,500 million in the same period last year).

Imports of petroleum and petroleum products more than accounted for the deficit, totalling $6,891 million for the month. The value of petroleum imports for the January-June period was $41,300 million up sharply from $24,700 million for the same period last year.

O'Brien on business

Cinemas: pawns in the delicensing dilemma

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses the company accounts.

THE Government's commitment to reducing licensing from various sections of industry and commerce is coming up against practical reality.

Last week the Cinematograph Films Amendment Act ran into the practical side of life.

Members on both sides of the House were concerned at the effect on small film operators when the bill abolished licensing.

Internal Affairs Minister, Alan Highet, said the Government did not believe that Kerridge and Amalgamated should be kept free from competition. Other members, notably former attorney-general Peter Wilkinson and Labour's arts spokesman, Eddie Isbey, were concerned that the small, independent operator would have a problem if licensing were abolished.

Therein lies the dilemma about licensing. On the one hand is the argument that no logical reason exists for continuing licensing on a number (effectively a quota) basis, as opposed to licensing on the basis of competence and compliance with health safety or similar regulations.

"Licensing" based on competence includes such activities as driving motor vehicles, practising the professions of medical doctor, lawyer, accountant, and aircraft pilots. Licensing based on health and/or safety regulations covers the operation of food stores, aspects of the entertainment industry, and the carriage of passengers.

A system, developed over the years, substituted a quota for those bases.

We introduced licensing for cinemas, hotels, taxis, airlines, freezing works, road transport (to protect the railways, which have a social function), shipping services, and even the number of people allowed to export primary produce.

Attempts to remove the quota system are guaranteed to run into trouble, because the licence holders have a piece of paper which is "worth" a considerable amount in money terms.

The paper protects them from open competition (in the case of airlines, the Post Office, road transport, and shipping it protects the Government. For "the national economic good" or the "social good" is immaterial).

The meat industry is an example of the fuss which arises when delicensing proposals are introduced to Parliament.

One argument, which seems to have receded a little recently, goes: Profitability in the meat industry is too low to support other operators, and that the latter will only take off the cream. Existing works spent large sums on marginal activities to provide a total service under the mantle of a limited number of licences.

The banks argue in a similar manner, saying that they open branches in small communities at minimal, or negative, profitability to provide a nationwide banking service.

A counter argument is that if the meat industry, for example, is so unprofitable, who will open a works for the sake of losing money when the same cake is shared out among a larger number of participants in the meal?

Then we have the argument of economic livelihood, which is the basis of fears about the Cinematograph Films Amendment Bill.

Delicensing affects the businesses of existing licencees, particularly in industries where independent self-employed people traditionally carry out the activity.

That is the dilemma's other horn. If there is a "right" to earn a living as a self-employed individual, there is also a "right" to make a loss and/or go broke, if someone else can do the job better, provide a better service, and possibly do both at lower cost to the broadly defined "consumer".

Hanging over all arguments and counter-arguments is the spectre of potential monopolies if open-day is declared in the industries.

There are many ways of controlling a potential for monopoly, without falling back on a quota licensing system. In passing, that system did little to stop the evolution of two breweries (taking Leopard as effectively a Lion concern).

Transport licensing is a more involved issue, because it brings in the question of State versus privately-owned enterprises (with the former usually a monopoly), and the "social good".

The latter took a bruising recently in the case of Air New Zealand, which is cutting services, in an endeavour to reduce costs, while raising fares on other routes to lift revenue.

But the airline has now come back full circle. It is looking at fringe privileges to attract back business on the Auckland/Wellington trunk route. Rising fares reduced custom, so we look at non-financial perks to increase custom.

This is the old "cost-plus" mentality. If higher fares produce lower revenue, surely there is a point where a lower fare will bring in the same or higher revenue by maintaining the number of "bums on seats"?

Air New Zealand is a state monopoly on most routes, but is now "investigating" why business people have cut their travelling, and it is looking at sundry attractions to get them back in the air. Some months ago I said here that a business person in Auckland could be on the phone to Wellington for four hours at a cost of $240. A trip to Wellington (or Auckland going the other way), plus time on the ground, consequent incidental travel costs, the inconvenience of being off one's "patch" and so on, probably equal the phone bill. Add in a night in a hotel with its associated expenses, and four hours on the phone is cheap.

The airline's loss is the Post Office's gain. Since both are State owned monopolies, it all seems a bit weird and makes nonsense of "social good" arguments about licensing.

Any bets toll calls increase in price to take advantage of this phenomenon?

Recent price rises put in their right perspective

THE recent rise in share prices is raising questions among investors as to where it will all end.

The answer is that several stocks are still undervalued on the basis of their potential profitability.

While the market indices are still rising, the "true" level of share prices is below that of last September, when yields and price/earnings multiples are used as the basis of calculation.

Each month I assess the average dividend and earnings yields and price/earnings multiples (the reciprocal of the earnings yield) for a range of 30 stocks. This work was started in September 1971. The sample has changed over the years following takeovers and removals of some companies from the official list.

The sample includes the present high-fliers and companies associated with now out-of-fashion industries.

On July 18 1980 the average dividend yield was 8.1 per cent and the average earnings yield was 19.49 per cent. The average p/e stood at 5.13.

On September 21 1979 the three figures were respectively 7.94 per cent, 16.02 per cent and 6.24.

In the heady days of 1973 (when the indices say the market was about 10 per cent "lower" than last week), the dividend yield was 4.73 per cent, the earnings yield was 10.91 per cent, and the p/e was 9.91.

Interest rates have doubled since 1973 (which accounts for part of the market's reluctance to reduce the present dividend yield), and company earning rates have improved. The impact of inflation on corporate fundings, combined with higher interest rates, resulted in companies ploughing back a higher proportion of their earnings, with a consequent rise in the cover for dividends.

The table gives the dividend cover for several leading stocks as at August 13 1973 and the same date this year (last week).

The 10 stocks are a reasonable sample of the market. The addition of other companies maintains the pattern.

It should also be remembered that the capital of most companies has increased substantially over the seven years, a normal trend as industry expands and requires additional funds for investment.

Investment is about future earnings, and analysts use historical figures as a base for their calculation of the future (although the historical figure may be taken to show that a dividend yield or some other element of price is out of line with reality).

Investors are receiving information at present on likely company profits for the year ending March 31 1981. Assessments from different people are roughly in line, which should cause little surprise because analysts reach their conclusions by applying similar techniques to the range of available data.

Wellington brokers R. A. Jarden and Co published an analysis of Tasman Pulp and Paper last week and included projected profit for that company, Fletcher, and Challenge. Tasman's 1981 profit was projected at $45 million, Fletcher's at $45 million, and Challenge (for the year ending June 1980) at $16 million. The lost figure excludes profit from sale of assets.

Dividend cover

Company	1973 August 13	1980	
Alex Harvey	2.2	2.5	
Challenge	1.9	3.5	
Fletcher	2.3	3.2	(Rate increased from 12.5 to 21 per cent)
Feltex	2.4	2.7	
Farmers	2.8	3.0	
Lion	1.9	2.4	
NZFP	2.6	2.2	(Rate increased from 12 to 18.5 percent)
NZMC	1.5	1.4	(Rate increased from 9 to 15 per cent)
Tasman	1.8	7.1	(Rate increased from 13 to 20 per cent)
Wilson & Horton	1.8	3.5	(Rate increased from 13 to 20 per cent)

In June and July I calculated $40 million for Tasman in 1981, $15 million for Fletcher, and $20 million for Challenge, the last figure allowing for profit on sale of assets of close to $4 million.

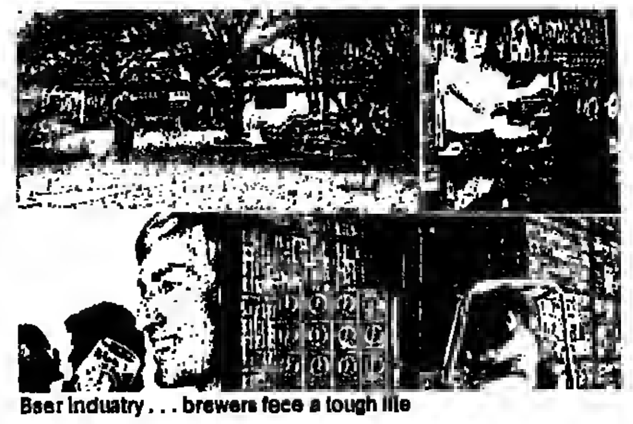
It was also said that if Tasman earned $40 million in 1980-81, Challenge's 1981 profit would include $11.3 million from that source, compared with about $1.9 million this year. The difference of approximately $10 million would lift Challenge to $30 million, without additional contributions from the basic business. Jarden, working from $45 million for Tasman, puts Challenge's projected 1981 profit at $32 million, excluding profit on sale of assets, but including a rise in traditional income.

There is nothing mysterious about the similarity between the various figures, and there was no collusion! Other organisations produce figures broadly in line with those quoted. It is the analyst's job to project profitability. If the job is done competently, the margin of error between different analysts should be low, although there will always be a margin, because different weight is given to different factors, and no person outside a company has access to the day-to-day accounts.

Note: The writer neither owns nor has a beneficial interest in Challenge, Fletcher, or Tasman shares.

O'Brien on business

Analysing annual accounts: Lion Breweries



Beer industry . . . brewers face a tough life

EARNING an honest dollar in the brewing business is a tough life, according to the Lion Breweries' annual report.

The directors reiterate their views, expressed in other years, that duty, sales tax and income tax, totalling $100 million in the year to March 31 1980 on group turnover of $280.5 million, is "to say the least an inordinate sum".

The directors' report shows the increase per litre in duty and sales tax since 1923. In those far off days, the taxes were one cent a litre, today they are 34 cents, after the 1980 Budget.

The table would be better presented if it included the percentage relationship between the tax and the cost per litre to the consumer over the same period. The relationship may have risen, but it is clear that other elements enter the equation over a period of 57 years.

(It is doubtful if even the most ardent supporter of free enterprise and the breweries could argue that relationships between Governments and brewers remain the same in 1980 as they were in 1923 – the year that Lion's predecessor, New Zealand Breweries was formed – when the company was closely associated with a tiring Reform Party Government which had been in office since 1911).

It is not this column's function to argue the rights and wrongs of liquor taxes, except to record that they are a significant aspect of a brewing company's costs.

Lion's cost of sales increased 13.7 per cent to $171.4 million, on turnover which rose $31.4 million, or 12.6 per cent. The latter figure was below the rate of price inflation in the March year, taking the Consumers Price Index as a guide to that movement – although the CPI is an unreliable base – for assessing a particular company's performance in relation to its individual cost increases.

The return of gross trading income to turnover, before accounting for other income, general expenses and tax, was 38.9 per cent, compared with 39.8 per cent in 1979. After allowance for the various other items added in and deducted from the profit and loss account, pre-tax income was 8.4 per cent of turnover plus "other income", the same return as in the previous year.

That relationship includes profits on the realisation of sale of assets, which rose in the latest year.

On this basis Lion is expending considerable energy to stand still. The main problem is illustrated in the report, when managing director, John Macfarlane, analyses group performance in a divisional accounting breakdown.

Brewing sector sales went up 17.6 per cent to $123.3 million, in dollar terms, and were 44 per cent of total sales, compared with $104.8 million and 42 per cent in 1979.

The "operating contribution" was virtually unchanged at $16 million, only $100,000, or 0.3 per cent above the previous year.

Volume sales were down 9 per cent, while costs obviously rose.

Lion is trying to diversify its operations, both inside and outside the "hospitality" industry. Any company has a difficult task to change track when 44 per cent of its gross sales revenue comes from one activity, irrespective of how it disposes of the output through other sectors.

In this context it is interesting to note how changing circumstances alter a company's strategy. In the late 1960s and early 1970s, the race was on to tie up breweries and hotels into one or other of the two brewing groups.

That strategy was to be the base for greater efficiency and market control. In the 1980 Lion report we read that the new guidelines set out in May, 1979 changed the group's "policies and resultant tactical planning".

One example, which may also relate to decisions taken before 1979, is Lion's refusal to build new residential hotels and relinquish tavern licences it had previously obtained.

The group balance sheet is straightforward, but the removal of the famous (infamous?) Androclea Corporation from this year's accounts affects a comparison of the return on total investment.

Amazing how $12.5 million is added into accounts in one year as "investment in associates", and taken out of accounts presented two years later.

That also affects the return on shareholders funds. The "year's highlights" table shows a return of 6.5 per cent on year end shareholders' funds, compared with 5.4 per cent in 1979, but the latter figure is calculated on funds which included Androcles.

Adjustment for that fiction shows the "real" return on shareholders funds was 5.8 per cent in 1979. The group had a marginal increase, after taking account of the now standard annual asset revaluations.

That is a low return for any company. In view of the massive difference between share price and asset backing per share, in relation to the returns on investment, the shareholders might be better off if the organisation was sold up and the funds returned. Okay, Sir Ralph and John, we are being facetious.

O'Brien on business

Economists' tome binds available info at a price

THREE academic economists have indicated variations between Government decisions on monetary policy and its advisers' recommendations.

David Sheppard and Girol Karacaoglu of Victoria University and Jan Whitwell of Massey published *The Operation and Functions of the Reserve Bank of New Zealand*, a document which is both descriptively informative and extraordinary in its compilation.

The "extraordinary" relates to the price ($35) and the 25 appendices attached to a 14-page text.

Dealing with the "descriptively informative" first, the document records the Bank's organisation and communication channels, its role in economic policy, the functions of the four principal departments, and an outline of the recently established "Open Market Committee".

The authors emphasise that their report, after a four day visit to the bank, is based on their own views. Neither "collectively nor individually should they be ascribed as representing bank officials' positions".

Bank officials commented on "earlier drafts", which adds interest to comments about discrepancies between recommendations and actual policy measures.

The report suggests that upward movements in interest rates lead to attempts to minimise the trend through keeping yields on Government securities at a non-competitive level relative to the private sector, and that similar political considerations influence any move to abolishing compulsory Government security ratios on financial ratios.

Outsiders suspect that the Government is fearful of using its interest rates as an effective weapon of monetary policy, and that decisions on rates may conflict with the advice given.

Compulsory ratios are a powerful political weapon, which make little economic sense in a so-called "freely competitive" financial system.

The Government has a history of introducing financial policy two to three years after the outside debate has reached a consensus, so there may be hope that (assuming it wins the 1981 election) the two points will receive attention in 1982 or 1983.

The report's value lies in its discussion of these issues.

The 25 appendices are reduced to 22, because three have a note "excluded upon request by Reserve Bank officials".

The reader is restrained from reading "extracts from a typical communication between the Governor and Government on monetary matters"; "Reserve Bank of New Zealand econometric model forecasts"; and "extracts from a typical set of open-market committee minutes".

The remaining 22 appendices sound impressive, but 10 can be obtained at no cost, either from the Reserve Bank (balance sheet, list of authorised specialised dealers in Government securities, weekly press statement on a sales of Government securities by specialised dealers, and so on), or from friendly bankers and securities dealers.

We are now down to 12 appendices, four of which can be bought at the Government Printing Office at a total cost of $3.65. Several are attached to the report in photocopy form, which amounts to more than the purchase price of the material, subject to university departments accounting methods for photocopying and paper costs.

Another appendix sets out the author's programme over four days in February, 1980, which is hardly an addition to modern economic knowledge. One entry on the programme for Thursday, February 21, says: "9.15am — Vault; 10am — Discussion with open market committee". The period in the vault was obviously important, because the text tells us that (among other things), notes scheduled for re-issue are packaged and recounted, sealed in cellophane and sent downstairs to the issue-store vaults to be placed in wire cages. New notes are stored in these vaults, also, while coins are stored in cash-store vaults next to the note storage vaults. Breathtaking what economists find out in research projects.

The report has a fancy cover, which the *NBR* do-it-yourself version would omit, saving another $6 to $7.

Assuming the authors might sell 100 copies, the income would be $3500. Our do-it-yourself version would give 15 appendices for a total cost of $3.65. Purchase of *Monetary Policy and the New Zealand Financial System* for $5 from the Reserve Bank, plus the monthly *Bulletin* (no cost), would, on my reckoning, reduce the 14-page text approximately in half. The do-it-yourself version therefore accounts for much of the information at $865 for 100 copies.

Ah, but then we come to the labour cost. One professor plus two other academics for four days at current payments for those worthies, based on [illegible] day year, would be in the region of $800/900. Add in [illegible] secretary's time (typing, photocopying, collating for a generous 1.5 days), and we get about another $60/70 depending on status and so on.

We now hit around $[illegible] adding labour to the do-it-yourself version, deducting the cover, and allowing for about half the text which is not readily accessible to the great unwashed financial community (unless they spend four days touring the central bank).

On 100 copies there is a sizeable margin, but since the potential buyers in the financial community might be [illegible] the descriptive and [illegible] Janet and John text, there [illegible] be a market of only 50 [illegible] case the "production" [illegible] would roughly equal the [illegible] come. Or is this to be [illegible] text, which would bring more funds from those who [illegible] be the public sectors financial top-dogs in the year 2010?

Stock Exchange weekly review

FOR WEEK FRIDAY AUGUST 8 TO THURSDAY AUGUST 14

	Last sale	Week's high	Week's low	Turnover
AIRWORK,50C	122	112	122	1200
7.5% PR	...	...	...	0
6% PR	...	...	...	0
AJAX G.K.N.	160	280	100	200
A.J.WHITE	100	...	...	0
11.5% CONV PR	60	...	...	0
ALCAN,50C	170	152	170	4200
A.N.Z.	237	113	225	27700
ALLIANCE,50C	58	59	57	11800
12% CONV PR	50	50	47	1600
ALLFLEX	110	114	110	35100
ALLIED FARMERS	293	213	293	3400
12% CONV PR	205	290	205	2700
ALLOY STEEL	200	...	...	0
A.M. [illegible], 50C	205	203	205	900
AMPOL PET.,50C	100	180	175	2600
A.BEAVEN	115	113	109	7200
11% CONV NTS	102	102	92	7400
11.5% CONV PR	92	93	92	5700
AUDAS GROUP	107	107	107	500
5-6.5% PR	90	...	...	0
12% CONV PR	90	...	...	0
ANZ BANKING GROUP	213	224	220	16630
A.WRIGHT	210	310	130	100
"A" 6-7.5% PR	...	...	...	0
"B" 3-6% PR	...	...	...	0
A.BARNETT	185	125	185	200
A.ELLIS	50	50	30	300
ARTHUR YATES	373	375	568	5200
12% CONV PR	140	140	140	700
ASHBY BEARN	110	...	...	0
A.D.CABLES	205	201	205	700
ATLAS, 50C	36	11	35	21700
10% CONV PR	30	30	30	5300
AUCK.GAS	470	470	470	600
AURORA,50C	160	160	180	1800
10% CONV PR	110	...	...	0
14% CONV NTS	104	...	...	0
CONV NTS '84	102	...	...	0
A.C.I.	198	...	...	0
AUTOCRAT HOLDS	180	180	110	1800
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Last sale	Week's high	Week's low	Turnover
5-1.5% PR	100	...	...	0
W.B.CARPENTER,50C	234	254	254	300
W.BUTHERLAND	155	...	...	0

Shipping

American sources enough for US shipping probe

PRODUCER board executives can travel freely to the United States without fear of arrest and an unscheduled stay in jail ... at least for some months yet.

American Attorney-General Benjamin Civiletti said in Wellington that the actions of quasi-government and government bodies would not come within the scope of the Justice Department investigation into Pacific shipping.

He emphasised that the investigation was seeking only to determine if American anti-trust laws had been violated.

The Justice Department is looking particularly for evidence of collusion between the shipping lines and other organisations or individuals to keep the trade to themselves and any predatory pricing agreements they may have made to safeguard their monopoly.

As a general guide, the investigators would not be concerned with the actions of government or quasi-government bodies in New Zealand, Civiletti said.

"But where individual concerns or entities or subjects go beyond the scope of that activity and engage in collusion whose effect is consequential, and shown to be so . . . then they will not come within the general government exception," he said.

For the preliminary investigation at least, the Justice Department had access to all the information it needed "from American sources", Civiletti said.

That marked a change in tack by the anti-trust investigatora. Before the Evidence Amendment Act was passed in a hurry, they were seeking information and documents from New Zealand.

McLay impressed on Civiletti that New Zealand's economic and geographic position called for different shipping arrangements from those that might apply elsewhere. And if the conference agreements are to be altered, then the appropriate New Zealand agency would take that decision.

The anti-trust busters want to know:

- Did the Wool Board strike a deal with the New Zealand/United States agreement cartel and its members, Columbus Lines, Blueport (ACT), Farrell Lines and the ABC Containerline to effectively stop Ace Lines joining the trade?
- Was the rate-cutting war started by the cartel which speeded Ace's withdrawal from New Zealand trade "predatory pricing"?

If the evidence substantiates the claims, the Justice Department may take action against the lines and the board similar to that which resulted in lines operating across the North Atlantic being fined $6.1 million last year.

Underlying the investigation is a battle between the Federal Maritime Commission, which approves rate-fixing agreements and turns a blind eye to some shipping practices, and the Justice Department's anti-trust zealots.

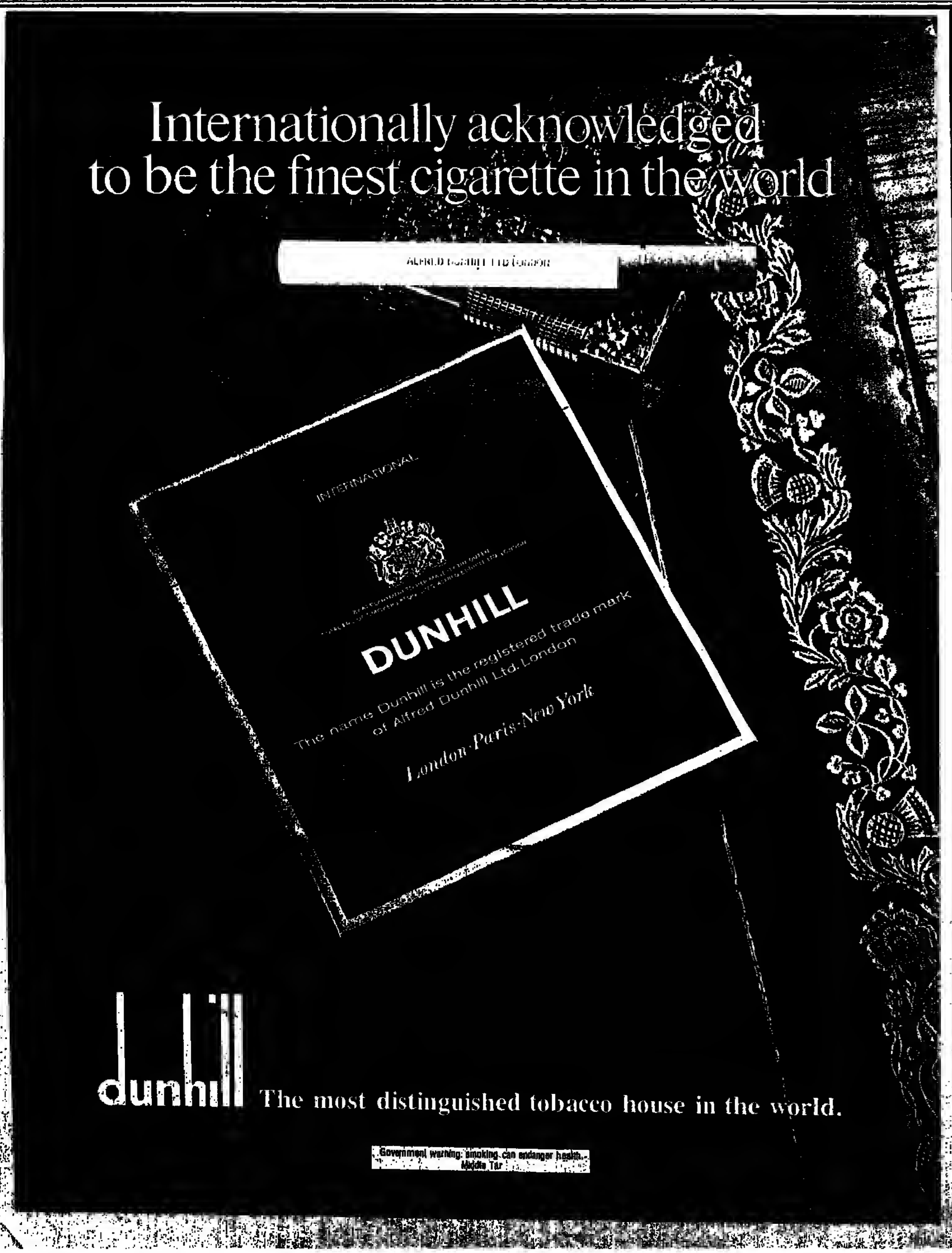
The commission last year suggested to Congress that shipping conferences and their rate-fixing agreements be specifically excluded from anti-trust legislation.

The seven lines that had to pay fines (ranging from $50,000 for each of the 13 executives involved and up to $1 million each) controlled 90 per cent of North Atlantic container freight from 1971 into 1975.

The commission had approved many price-fixing agreements but the lines exceeded their scope on two counts, according to the indictment:

- They had failed to file accurate minutes of relevant meetings;
- They established price and revenue target committees, tried to equalise south and north Atlantic rates and persuaded independents to drop the right of independent rate action all without the commission's authorisation.

Civiletti emphasised that the American Government was not seeking confrontation with New Zealand and had discussed with McLay "a mechanism" whereby "conflicts or potential conflicts may be avoided in advance".



Government administration

Spotlighting technology through blackout protest

by Ann Taylor

FOGHORNS will be silenced and lighthouse beacons dimmed tonight by the keepers of the remaining 17 manned lighthouses in further protest against the Government's refusal to mount a public inquiry into the demanning programme.

A delegation of 10 keepers and PSA officials went to Parliament on July 14 to ask for the inquiry.

Public Service Association spokesman Phil Butler said they were "fobbed off" by the Government's offer to hold further discussions with the State Services Commission, Ministry of Transport and the PSA.

State Services Minister David Thomson said later that any unresolved matters could be referred to the Public Expenditure Committee.

The PSA said such a meeting would not be adequate because the views of all affected parties would not be considered. It has asked for a moratorium on all automation pending a public inquiry.

The keepers initiated their industrial action on July 22 when they stopped supplying the Metereological Service with weather reports.

The public and media have rallied to the keepers' cause at a time when automation and increasingly sophisticated technology appear to be pushing the would-be lighthouse keepers of the world into darker corners.

Labour's shadow Minister of [illegible] has sided with the keepers, claiming they are among the first victims of technology and that all New Zealanders should support their call for a commission of inquiry into automation.

Of the 130 lighthouses in this country, 113 are now automatic. Thirty-five were originally manned, a number which has been reduced to 17.

The automation programme dates from 1928 when the first automatic light was installed. Since then, a programme of demanning the 35 manned lights has been implemented.

The outcry, initiated in 1978, results from a programme approved in 1973 to automate eight lighthouses. The last 12 will be demanned from 1983 to 1988.

The PSA was informed of the programme in 1973.

The controller of the Light House Service, Captain Syd Davies, said the keepers got "fired up" when, they for the first time, made a salary claim in 1978 and got together with the PSA representatives.

"Maybe the social climate and the finality of nearing the end of the programme spurred them on," he said.

The lighthouse keeper of fiction and dreams was alive and well in the days of the fixed light. Fuelled with codza oil, these lights kept their keepers busy trimming wicks, pumping fuel and ensuring they stayed alight. The original revolving lights, fuelled with kerosene required similar devoted service.

Change came with the introduction in the 1950s of the diesel engine. As Davies put it: "We put him (the keeper) in the position where he could go to bed instead of being up all night and we filled his day with ancillary duties."

It is the withdrawal of these ancillary duties which the SSC and MOT [illegible] nised as the primary responsibilities of the keepers, that the PSA objects to most strongly.

Lighthouse keepers have provided local weather reports to fishermen, surfers, yachties and top-dressers on a local level. While this has been a valuable service the cost of maintaining stations has not fallen on the users.

Commercial fishermen pay nothing for the service which is funded from a tax levied against the shipping companies and paid into the Government's coonsolidated fund.

Davies points out that it is possible to sale from Cape Reinga to Bluff and only pass two manned lighthousea.

Two of the currently manned lighthouses already have automatic meteorological equipment. Though they do not provide information on visibility, cloud, sea height, wind gust and rainfall at any one point in time, increased satellite surveillance by 1985 should provide specific local reports.

The PSA has questioned the reliability of automated lights and the expense of remote control monitoring systems.

Davies said that only selected lights at landfall points will be automatically monitored. Extensive and reliable automation overseas, and the use of radio beacons and radar by ships, deflates arguments that maritime safety will be compromised by automation.

Davies said "automatic lights are equally reliable — keepers are unfortunately the victims of the wheel of progress".

The loss of seismological monitoring from the strategically important stations at Castle Point, East Cape and Cape Reinga was originally lamented by the DSIR, which has conceded that alternative means — automation or a local person — would be adequate.

Another ancillary duty, adopted by keepers and now championed by the PSA, is their role as wardens of the reserves on the Stephens, Brothers and Cuvier Islands.

The PSA claims there are seven stations where keepers perform the function of wardens — a number unsubstantiated by the Internal Affairs Wildlife Division which claims that the removal of keepers from the three reserves will in fact reduce its obligations by removing human and stock interference. It can maintain these reserves without putting on extra staff.

The loss of the hourly surveillance of the sea and assistance in search and rescue operations currently performed by the keepers "is not in the public interest" according to the PSA.

Monthly reports returned from the lighthouses in 1979 indicate that there were 25 incidents, 13 in 1978, and seven in the first six months of 1980 when keepers have helped in search and rescue.

The cost-effectiveness of such a service does not justify the retention of keepers, according to the SSC. And as David Thomson said "there must be some doubt as to its effectiveness . . . when it is considered that there are only 17 manned lighthouses on a coast line of 7000 kilometres".

SSC director responsible for the MOT, Simon Arnold, said the PSA was acting as a public pressure group rather than a union in the issue.

The relocation of the keepers concerns him but "we have not had the opportunity to discuss that with the PSA" he said.

Of the 17 keepers, three will be retiring at 65 and two lights will be automated coincidental with their keepers, retirement at the age of 60.

That leaves 11 to be relocated over a period of eight years.

Quigley's proposals for radical state-spending controls

by Colin James

RADICAL new methods of controlling Government spending were proposed publicly last week by Miater Private Enterprise, Associate Finance Minister Derek Quigley.

Quigley's proposals came in a speech prepared for delivery on Friday – at a time when officials, under Cabinet guidance, have been exploring new control systems.

Basically they seek to avoid the heavy expansionist bias in present control procedures.

Those procedures start from the base of the preceding year's spending and activiries. Quigley wants to turn this on its head – to start from a total pool worked out on economic criterian and fit spending into it.

According to some observers, Quigley has been the key member of the Cabinet expenditure committee which this year has put spending proposals under a much more searching examination.

But he remains dissatisfied with the results. In his speech he complained that net Government spending has risen from 29.2 per cent of gross domestic product in 1973-74 to 38 per cent in 1980-81 – during most of which period a National Government supposedly committed to restraining spending has been in power.

The problem – "a tendency for incremental 'creep' to take place each year even in the presence of general across-the-board constraints", in Quigley's words.

Detailing pitfalls in the present system (see accompanying story), *Quigley called for a shift* of attention front allocating money for new activities to reallocating the base.

"Without evaluation and reviews we lack both the mechanism for identifying those resources which can be reallocated and the evidence which will be required before governments can be expected to defend their reallocation decisions," Quigley said.

He delicately chided ministers in "non-finance" (that is, spending portfolios for "regarding expenditure guidelines as less binding than do their colleagues in finance" – a polite reference to what other critics have seen as ministerial scrambles to prove their strength by getting as much money as they can for their departments.

The way out: mechanisms which involve all ministers in setting the overall and sectoral limits.

"This should inhibit individual ministers from seeking to increase total expenditures and, equally, ministers as a group from approving them," he said.

The Quigley proposals involve a five-stage process:

- Set total expenditure levels;
- Decide on priorities;
- Set cash limits for areas of spending;
- Set aside an "additional spending pool";
- Group votes by sectors for control purposes.

The desired total level of Government spending would be set for a number of yeara ahead in real terma. Quigley suggested three years.

The level would be set by deciding how much of the gross domestic product (gdp) should be allocated to the public sector, thus implying Government spending growing no faster, and perhaps ½ to 1 per cent slower, than the gdp.

For this purpose the Government would work on an average gdp figure over, say, five years, to avoid any dislocating effect of short-term fluctuations.

The total level would also be influenced by financing implications in terms of revenue and borrowing requirements: in other words, tax.

The second stage, determining spending priorities, would involve determining whether there were particular areas to which the Government wanted to give more or less emphasis over the forecast period.

"As I see it," Quigley said, "we should divide the total field of Government expenditure into a relatively small number of broad categories.

"I would imagine that, in practice, there will be only a few areas where we would want to significantly alter the relative priorities of past expenditure patterns.

"Our objective should, therefore, be to retain policy flexibility within a framework which imposes firm spending constraints both in the aggregate and at the sectoral level.

"This combination of the objectives of maximum flexibility within defined parameters would best be achieved by avoiding the trap of excessive disaggregation" (breaking targets down into too small categories) "and instead subdividing Government expenditure into only a relatively small number of broad policy areas.

"Finally, there is merit in taking a reasonably long-term view of any programme designed to change our expenditure priorities.

"Particularly in any period of low growth a sharp change in priorities, immediately implemented, may well produce a reaction from disadvantaged groups that often leads to the need for concessions."

The third stage involves the setting of cash limits.

These limits should be equal to:

- The current year's allocation, less non-recurring items;
- *Plus* price variations necessary to allow the present level of activity to be maintained;
- *Plus* specific financial allocations already made in respect of the coming year's activity.
- *Less* contributions to the "additional allocation pool" or "contingency pool".

"Departments would be expected to live within the cash allocation," Quigley said.

"Insofar as an increase was sought in one part of the vote, compensating sovings would be required in other areas" (analogous to the tit-for-tat policy already operating).

"This would force the reappraisal of existing policies. It should result, not only in containment of expenditure but also in a steady upgrading of the overall quality of Government expenditure."

At this point the "contingency pool" would come into play, to meet increases in the volume of a department's activity.

"In practice, the additional cost of existing policies arising from such factors as demographic changes (for example, national superannuation) or changes in the economic climate (for example, unemployment benefits), would be a first charge on the contingency pool, although even this would be vigorously examined to see if the underlying policy should be changed."

"Nevertheless, by bringing all allocative decisions relating to the pool together, that is, decisions relating to both new and existing policies, relative priorities and potential trade-offs could be more readily identified.

"Any claim on the contingency pool would be rigorously examined.

"All elements of the relative vote would be subject to scrutiny both to see whether savings could be made in the base and to establish the priority of those volume increases that were accommodated within the cash allocation."

The fifth element in the process would be grouping a number of votes and making them subject to an overall spending limit.

This would provide increased flexibility for spending decisions within sectoral guidelines.

"The allocation amongst individual departments could be made by a Cabinet committee comprised of a finance minister and the ministers whose votes were involved," Quigley said.

"Their task would be to determine expenditure priorities within the sector, subject always to the expenditure limit within which they were to operate."

Government administration

Derek Quigley... curbing creeping sickness

COPE not curbing "expenditure creep"

FUNDAMENTAL problems with the existing system of Government spending reviews make them rather ineffective, according to Associate Finance Minister Derek Quigley.

The annual review by the committee on public expenditure (COPE) projecting forward the cost of departmental programmes "inevitably results in a degree of expenditure creep from year to year," Quigley said.

"There is a constant and very understandable temptation for departments to adopt an expansive viewpoint when determining their needs in terms of personnel, goods and services.

"Once the claim has been accepted and a figure added to the base, there it remains to be escalated at the 'standard' rate from one year to the next, except in the event that arbitrary cuts off the COPE figures are made at estimates time in response to a feeling that the final COPE figures contained some 'fat' or simply must be reduced because of macro-economic or financing considerations.

"Also, many of our policies are open-ended, in the sense that we do not impose an expenditure ceiling on a policy when it is introduced – and the expenditure incurred on some depends on the vigour with which they are pursued or the simple complionce with certain rules (for example, unemployment benefits or national superannuation).

"In the latter case the Government automatically spends more (or less) depending on factors largely outside its control, unless it changes the rules.

"It is therefore not difficult to see why, despite the COPE exercise, we have had difficulty in achieving our targets for the overall level of Government expenditure."

The second control procedure, the new policies review, while methodical, in Quigley's eyes has two defects.

Some new policies were dealt with outside the annual review procedure – "blurring the demarcation between essential and non-essential expenditure so that some policies are accepted that would not survive the more rigorous comparative examination of a new policies review."

The new policy review system also lent itself to "policy creep".

"It provides a strong incentive, indeed, an invitation, for ministers, departments and special interest groups to propose new or expanded areas of expenditure with little or no incentive for existing programmes and functions to be critically reviewed at the same time.

"As a result, 'new' expenditures are simply loaded on to 'old'."

Quigley doubted also whether the annual existing policies review by ministers, aimed at finding savings in what departments are already doing, could in its present form be expected to achieve its potential in the absence of any additional incentive to induce departments to make them.

Conversely, he said, a rigorous approach by departments was of little value unless there was a commensurate willingness by ministers to adopt an equally rigorous approach.

The fourth current mechanism, the "sinking lid" on staff numbers, also has its drawbacks in Quigley's view.

"By making a reduction in staff numbers the policy objective, rather than a reduction in expenditure, there is at least some incentive for departments to replace labour with capital, or to contract work out to the private sector, irrespective of whether or not these are more costly alternatives – or to employ temporary workers at the expense of the labour vote."

Energy

Birch's list of 'errors' rekindles smelter debate

WHEN it comes to reports on aluminium smelting in New Zealand "you pays your money and you takes your chance".

Three reports have been circulating publicly on the subject, and within those three there is something for everyone.

Otago economist Professor Paul van Moeseke's report is the most comprehensive economic analysis, the one to refute, and the most damning of a second smelter.

The New Zealand Economic Institute's report, written by director, Kerry McDonald, is a critical appraisal of van Moeseke's conclusion and consists mainly of general claims.

It was backed up by a second report issued by McDonald on the benefits of the third potline at Tiwai Point to the nation.

The institute acts for Comalco and McDonald explained that the lack of hard data is because of the commercial confidence of the figures, which have been supplied by Comalco and the Government.

In both cases he claimed the report was "an independent and objective analysis".

McDonald says a third potline — and he appears to generalise this to a second smelter — would provide a rate of return higher than 10 per cent, even if electricity is sold at 1 cent a unit.

The report drew heavy criticism. Van Moeseke said he was not in the business of replying to secret reports. The *Otago Daily Times* said it did little else than enhance the professionalism of van Moeseke's report.

And Dr Geoff Bertram of the Coalition for Open Government slated the McDonald report as "mostly peripheral, often inaccurate and based on information withheld from the public."

The institute's elected board reads like a Who's Who of big business, and includes Hugh Fletcher. Its clients include Comalco.

For those who prefer to see which way the wind blows, such as Opposition leader Bill Rowling, Murray Ellis of the development and programming section of the Ministry of Works and Development has produced a happy compromise.

In a personal report he claimed the third potline at Tiwai Point was economic since it will be supplied with energy that would not otherwise be used.

But, he said a new smelter was uneconomic, with break-even electricity prices at 2.3 cents a unit for the first pot and 2.7 cents for the third.

Amidst the claims and counter-claims the three reports held to one point of agreement: New Zealand will have to charge far below the cost of production for electricity to attract a smelter.

Energy Minister Bill Birch has probably gained the most from the various reports.

First, he can point to a report that supports a smelter, even if it lacks the appearance of independence.

Second, and more important, the confusion generated by the three reports has got Birch out of a situation of his own making.

When the Fletchers-CSR-Alusuisse consortium was given the green light for a second smelter, Dunedin people realised that meant a local smelter.

The consortium favours Dunedin, and it is understood Wickliffe Bay, on the South Coast of the Otago Peninsula, is second choice to the prime Aramoana site.

The decision effectively means the first line of defence, that a smelter is against the national interest, had been defeated.

The broad base of opposition to a smelter rested on this argument. With its disintegration there were signs the anti-lobby was being reduced to its hard core as many realised it was a case of Dunedin or elsewhere, and changed sides to fight the parochial cause.

Van Moeseke's report appeared to have been ignored by the Government, and in the wake of a decision it began slowly drifting from relevant consideration.

Then Birch blew it with a badly timed blunder that thrust the van Moeseke report back into the limelight and highlighted again the apparent absurdity of the Government's case.

In a speech to the annual meeting of the electric power boards, Birch gave the long-awaited Government reply to van Moeseke's report.

In retrospect, it now appears that the reply lent heavily on the economic institute's report. Birch chose four examples, and one must assume they were his best, if not only ones.

"He has oversized the proposal by 50 per cent. It is 200,000 tonnes per annum, not 30,000 tonnes," said Birch.

That first example was a strange one, considering the consortium's proposal is for a 300,000-tonne smelter, with the condition of the third potline being power availability and metal demand.

And van Moeseke's report made clear that the relative economics are very similar, with the smaller smelter slightly worse.

Van Moeseke's second mistake, according to Birch, was to value the freight-on-board price for export aluminium at $1111 when the correct figure was $1600 a tonne at that time.

But Birch failed to point out that van Moeseke's figure was derived from actual export values from the Bluff smelter, as was the spot price.

As van Moeseke said, it was like comparing the Rotterdam spot prices of $42 a barrel for oil with the $28 contract price. In terms of real value one is fact, the other fiction.

Birch's next two examples were perhaps the most extraordinary. He claimed van Moeseke was some 70 per cent out on electricity usage and that the smelter would use 3000 GWH a year, not 5100.

Then he claimed van Moeseke's capital cost was way out — that the smelter would cost $650 million in today's figures not $1000 million.

What Birch was comparing was his figures for a 200,000-tonne smelter with van Moeseke's for a 300,000-tonne smelter.

Not only was this below the belt, but when the figures were correctly converted it became obvious there was little difference in the two sets of figures.

Van Moeseke is considered one of the sharpest minds in energy and scarce resources pricing in the world. He is a busy man and when it became obvious his report — worth between $100,000 and $250,000 in the commercial world but done free — was to be ignored, he wanted to return to other things.

While there was brief breathing space for Birch in the confusion that followed [illegible] the issuing of two other reports, the significance of the [illegible] over van Moeseke's report [illegible] ing resurrected has been considerable.

It has forced van Moeseke back into the public eye, [illegible] against his will.

"If they want to build a smelter regardless why don't they just leave me alone," he said.

The renewed debate has [illegible] flushed out signs in the Labour Party that some members [illegible] unhappy with the proposal.

Auckland Labour Party maverick Roger Douglas said "additional information [illegible] available, unless refuted, [illegible] me to the conclusion that [illegible] second smelter is an economic disaster from New Zealand's overall point of view".

Opposition leader Bill Rowling remains reluctant [illegible] criticise the idea of a [illegible] smelter. But he has jumped [illegible] the "give us more information" bandwagon.

And in Dunedin some of the more ardent proponents [illegible] the business community [illegible] showing signs that [illegible] ment to the smelter is [illegible] option" decision rather than "best option" decision [illegible].

More important, Birch's performance has again [illegible] sised the local anti-[illegible] have a lot of credence, [illegible] among those who disagree [illegible] them. The "vocal majority", "Eco-freaks", "bearded unemployed" lines that usually [illegible] fice to discredit in such [illegible] stances are not working, and the anti-element is receiving a lot of expertise and financial support.

Fletchers is certainly taking them seriously. Within a few days of the decision [illegible] representative from all parties in the consortium met [illegible] anti-smelter people in [illegible] land for three hours.

They are also aware the [illegible] smelter group is [illegible] one of the top barristers in [illegible] planning exercises in New Zealand, and that consideration is being given to take the project outside the Dunedin area [illegible] site.

None-the-less, van Moeseke himself believes the decision [illegible] made, and final.

The consortium believes construction can start on site within 12 months, using the provisions of the National Development Act.

Local groups [illegible] sod will not be turned on any Dunedin site for at least three years.

The consortium has [illegible] publicly it will not proceed [illegible] site that requires a ministerial override of a tribunal decision.

That means if the tribunal after hearing all parties, decides the project should not proceed on the selected site, the consortium must go elsewhere although Birch can [illegible] that decision.

Local groups are confident the van Moeseke report will stand up well at any [illegible] hearing regardless of the [illegible] and serve to establish that [illegible] project is not in the national interest.

About the only certain [illegible] to emerge from the [illegible] swapping of aluminium [illegible] and resurgence [illegible] Moeseke's arguments [illegible] three weeks [illegible] smelter lobby [illegible] its resolve to fight [illegible]

Regional development

Southerners look to Japan for trade development

by Allan Parker

ALTHOUGH the rain's a pain on the Taieri plain, a group of deep Southerners is out to prove that in the main, not all the province is wet behind the ears.

Twenty-four Otago and Southland manufacturers took part in a goodwill trade fair exercise that they hope will bring Japanese yen to their region.

The fair was held in Otaru, a port city on the island of Hokkaido. Celebrations earlier this year marked a sister-city relationship between Otaru and Dunedin.

The manufacturers were invited to attend the Otaru fair as a goodwill gesture from both sides. The Kiwi firms agreed to have a presence and the Otaru authorities shipped the display goods and provided display space free of charge.

The director of the Otago/Southland Manufacturers' Association, Blue May, acted as representative for his participating members.

"The whole thing was tremendously successful as a promotion and public relations exercise," he said.

"We didn't write any sales, but we gained an invaluable insight into what is wanted by the Japanese, what modifications might be needed for certain products and what marketing strategies might need to be adopted by different companies."

May will be reporting to the exhibitors individually on what he sees as the potential in Japan for their product and what, if any, changes are required.

Among the companies were some of the region's — and New Zealand's — well known manufacturers. They included: Alliance Textiles, Donaghy's, Tamahini Knitting Co, McArthur's Knitwear, Wapiti Handcrafts Ltd; soap makers McLeod Brothers Ltd; Miller's Mechanical; Radcliff Footwear McKinley's Footwear; picture frame moulders W J Haynes Ltd and Sew Hoy and Son Ltd.

"Because of the different lifestyle in Japan, some of the products we accept as the norm will just not sell there," said May. "Also, some products in, say the clothing area, will suit the exclusive, boutique type outlet which would be mainly in the larger cities (Otaru population: 186,000). Others will be better sold through department store chains."

As an example of modifications that will be required to penetrate the market, May cited knitwear. "They were very impressed by our knitwear, but they prefer a finer wool than the wool we are used to wearing."

The "most popular thing in the show", he said, was deer suede clothing. Because of price, he will be recommending top-of-the-market marketing in the large cities.

A range of attache cases made by Dunedin's Rehabilitation League gained attention, particularly smaller ones for school children. The marketing approach for the League, May believes, is through department stores.

Following on from the [illegible] and the trade fair, May thinks the Otaru Chamber of Commerce will visit Dunedin later this year and a party of Otaru city officials, including the mayor, will call on the deep south in February next year. Otaru is by no means a stranger to New Zealand; its port handles some 25 per cent of all New Zealand meat exports to Japan.

The latest exercise is no novelty to the southerners. In recent years they have shown an increasingly outward-looking approach to their marketing. This has been caused by increasing transport costs throughout New Zealand, the northward drift of people and a feeling that the rest of the country has abandoned the region.

Ironically, the area could well be on the brink of a major and prolonged burst of economic recovery, spearheaded by coal, hydro and forestry resources.

These prospects and the successes of their forays into the world outside New Zealand have given the region a psychological dose of adrenilin. These canny southerners will prove in the next few years that they most certainly aren't wet behind the ears.

Admark

John wins another gong

THE "Dear John" BASF recording-tape commercial which, as reported in *Admark* June 23, won the CLIO awards in international competition, has done it again.

This commercial, which appeared on the cinema circuit and TV screens, was selected by Kerridge Odeon for sponsorship in the International Advertising Film Festival conducted in Cannes by the Screen Advertising World Association.

There were nearly 2000 commercials from 29 countries entered in 17 different categories. "Dear John" received the highest category of award — a gold Lion, the first to have been awarded to a New Zealand commercial.

Tom Kincaid, PR director of Kerridge Odeon who was at Cannes, said the commercial received the greatest applause of any screened and he had already received requests for copies from other countries.

Due to the consistently high quality of New Zealand entries, there was talk of adding a New Zealand juror to future panels of judges, he said.

BASF sales manager, Graham Mac, told *Admark* that the commercial was originally designed to build brand image and name. "It is still producing phenomenal results," he said. "Research has established that the commercial has accomplished far more than we originally expected."

Few commercials have achieved such broad based ac [illegible] about.

It was directed by Tony Williams Productions from a script by Roger Brittenden of Whitaker Advertising.

Challenge to the chains

A WORDY full-page newspaper ad released by the Retail Traders Society Ltd is an indication of the trading pressures currently felt in the retail field.

R T S is a chain of independently owned and operated retail stores which have voluntarily joined forces in a mutually owned organisation. The object is to obtain some of the strengths and advantages enjoyed by corporately owned chains without surrendering independence.

Membership is spread nationally through town and country and includes 350 small and large stores of various classifications, many of them prominent in their particular fields.

R T S has been in existence for 17 years and its main purpose has been to act as a central purchasing agent with multiple store buying clout which must be considerable when its member stores turnover exceeds $400 million at retail.

Additionally it has provided, when needed, operational services in advising on finance and management matters and is now adding staff training to its range of back-up facilities.

What this advertisement signifies is a move to take R T S out of the stockroom and put it in the show-window.

It will become a marketing and promotional tool with the component stores identifying with the RTS logo.

"Retailing is going through a dramatic change," general manager, Warwick Coker, told *Admark*.

"It is increasingly difficult for the individual retailer to survive in competition against corporate chains. R T S provides the means by which single stores can gain strength through grouping together. And we are now telling the public about our strengths."

The advertisement makes a [illegible] more carefully selected merchandise.

"While computers can regulate inventories, it is the personalised service to people and fair prices that matter most in successful retailing," says the ad.

And who commands the illustrated portion of the advertisement? Our old friend, Dougal Stevenson. And why Dougal? "To give credibility," said Coker. Which is as nice a thing as you can say about anybody.

TV billings blossom

TOTAL advertising billings on the electronic media could reach $100 million this year and Television New Zealand will take an even bigger share from the print media.

This calculated prediction comes from Maurice Urlich, general manager sales and operations for TVNZ.

Urlich said billings for TV and radio had grown from less than $30 million in 1975 to about $85 million in 1980 and would probably hit $100 million by March next year.

In 1975 shares of total ad agency billings were: press, 46 per cent; radio, 8.9 per cent; TV, 26.6 per cent.

Urlich predicts total ad agency billings for 1980-81 will be — TV, 54 per cent; press, 25 per cent; radio, 7.5 per cent; printing 11 per cent; billboards and other, 2.5 per cent.

The growth of television advertising from $30 million to $100 million and market share from 26 to 54 per cent was helped in part by increasing TV ad time.

In 1975 there was one channel offering six minutes of ad time four days a week. Now there are two channels offering nine minutes an hour five days a week — a 275 per cent increase in time available.

The trend in advertising had been away from soft sell corporate ads to hard-selling messages to boost turnover, Urlich said.

The biggest growth was in consumer goods, he said.

While Urlich's predictions showed Government-owned TV winning revenue at the expense of privately owned newspapers, Government-owned radio was being beaten by the private stations.

Urlich estimated that private radio would earn about $10 million of the $100 million spent on electronic media advertising.

Small can be best

THE INL Newspaper ad awards for 1980 are off and running. An enter-as-you-go system is operating to save time and rush at the end of the year.

The categories remain unchanged from last year as do the prizes which have a cash value of $10,000. A ticket to the 1981 Chicago art directors' workshop goes to the winner of the "chairman's award" and attendance at the Caxton awards seminar in Australia rewards the category winners.

An innovation is the introduction of two size ranges in each category. These are described as up to but not including tabloid and tabloid over.

"The idea is to encourage the entry of smaller ads which we saw little of last year," said awards administrator, Ian Wells.

"There is some very good work done with smaller sized ads. They will be judged as a group, as will the larger ads, and it could well be that the best small ad will beat the best large one in its category," he said.

Conference hot press

AUCKLAND publisher John Sandford has come up with what he believes to be a New Zealand first — publishing a daily, magazine for conference goers.

Sandford runs Jason Publishing Co Ltd, publishers of sister directors *Hotels* and *Motels*.

During last month's Motel Association conference in Rotorua Sandford put out *Jason's Conference News*. As each day of the conference ended Sandford rushed to his typewriter, wrote the copy, rushed to the printer and got back to the conference by opening time at 9 am with the ink still drying on 300 copies.

Apart from coverage on the previous day's events, the 12-page magazine carried light human interest stuff about the delegates and plenty of photos.

Sandford said he got the idea from Joe Hanson, publisher of the American publishing magazine *Folio* who did a lecture tour here recently.

The magazine, produced in co-operation with the Motel Association, paid for itself in advertising revenue. But the major reason for publishing it was to promote his own directory, Sandford said.

As a follow-up, Sandford will published a 40-page magazine on the conference for 1500 association members. Carrying no advertising, it will cost about $1200 to produce, and cost the association $1500, leaving him $300 profit, Sandford said.

Economy restructuring

Economic restructuring

Restructuring: the surgeon attending inflation must understand root causes of the ailment

by Frank Noble Beasley

PRESENTING his Budget on July 3 1980, Prime Minister Rob Muldoon said he was pursuing the options of steady planning and progressive adjustment. He did not use the present "in" word, "restructuring". He did talk about the commitment to the concept of development embracing the elements of growth and change and allowing the economy to operate more freely.

The general tenor of the first seven pages of the Budget is on change and restructuring. Then Muldoon discussed inflation and correctly observed that inflation could not be solved by various expedients.

He said countering inflation was part and parcel of the Government's development policies. Moreover, the Government was moving towards a more open economy with less regulation and restraints on innovation in enterprise. These other factors would help check inflationary forces.

The underlying tone of his Budget was the intention to control inflation and restructure the economy, which presumably he hoped would reduce unemployment and raise standards for all.

A few days earlier, Labour's Roger Douglas had announced his version of the Budget. This was somewhat different from what we have come to expect from traditional Labour Party thinking. Some of his ideas were innovative — designed to get New Zealand moving. In so doing, they would have restructured the economy.

One of Douglas' underlying aims was that a change, from taxation on income to taxation on assets (companies and farms), would give greater incentive to productivity and curb inflation and increasing employment.

In recent weeks we have been seeing some of the immediate consequences of restructuring and thinking about restructuring — the effects that textile industry changes have had on Mosgiel and towns like Shannon, and maybe Palmerston North and Levin; and the debate and crises of horror from unions and suburban mayors at the form of provocative inquiry the Industry Development Commission is using with the motor industry. The objectors ignore the 11 plants capable of assembling motor vehicles in New Zealand, which possibly have a combined capacity of 200,000 units a year. The medium-term expectations of output are 65,000 — 70,000 units a year.

There is a large sub-structure beneath the motor industry making springs, tyres, batteries, upholstery, and so on. Do we care about unutilised capital investment? Must we avoid inquiry?

No amount of restructuring will succeed unless we simultaneously control inflation, but restructuring will go on because of change in methods, wants, and lifestyle.

The motor assembly business, spawned in the 1930s, grew to maturity in the 1950-1960s, had a heady fling and reached zenith output in the early 1970s.

The serpent appeared as an oil shiek into that Garden of Eden.

But an industry structure, basically conceived and planned some 50 years ago, is bound to need major changes.

It is essential we know the root nature of inflation before embarking on a grandiose scheme of restructuring.

According to one well documented view, inflation will not be helped, or in any way diminished, by freeing up the economy. If that view is accepted, Muldoon and Douglas are pursuing wrong cures.

Let us examine this approach.

Writing in the *New Yorker*, Robert L Heilbroner put forward, in non-academic terms, the proposition that inflation is not some sort of sickness or ailment that can be cured. On the contrary, the history of capitalism has shown a changing of ways of working, each of which produces social strains and stresses which contemporary observers see as ailments and maladies.

Heilbroner illustrates such examples as noisy slums, dark satanic mills and a gin-soaked underclass which was a feature of 18th century capitalism.

Later on, cartels and trusts plagued capitalism in the United States.

Then came the propensity to deep intractable depressions — in the 1870s, the 1890s, 1913 and the mammoth depression of the 1930s. These were inherent manifestations of the system working, Heilbroner states and argues that the inflation of the 1970s is an inherent manifestation of some of the strains in what he calls "governmental capitalism".

Heilbroner says of inflation and the evils mentioned above: "In retrospect, these complaints can all be seen as institutional or functional changes that the system has imposed upon the environment, or the environment on the system, not 'ailments' of capitalism so much as adaptions and alterations that testify to its furious *elan vital*. The peculiar property within capitalism that gives rise to its constantly changing mode of working is not difficult to identify. It is the nervous energy that permeates the economy, imbuing it with a kind of activity which reminds us of the behaviour of a mass of living cells."

He uses the cellular body analogy as a symbol of the thrusting, restive search of the participants within the system for their material advancement.

He quotes Adam Smith . . . "the desire of bettering our condition". Smith described this desire as "coming as from the womb and not leaving us until the grave. In the whole interval which separates these two movements, there is not perhaps a single instant in which any man is so perfectly and completely satisfied with his situation as to be without any wish of alternation of improvement of any kind."

This drive leads to restructuring. Heilbroner does not use the word but he does give examples, such as the change in the traditional farmstead to the modern farm which spews out unneeded farmhands in the process.

He borrows from Smith the example of a tiny pin factory, which was transformed by inventive machinery and division of labour into a block-long plant, which produced rivers of pins for which buyers had to be found. But one of the manifestations was that the monotony of work reduced employees to near stupidity.

It was, as Smith tells us of early capitalism, a puzzle that such a system could achieve order and harmony when all its protagonists were concerned only with their own well-being and not with that of society at large.

Smith found his answer in the "invisible hand" — the mechanism of competition. Buyer was pitted against buyer, seller against seller, and to survive the participants on each side had to reach a contract.

Competition turned the war of each against the other into a harmonious social process.

"The market is the supreme organisational triumph of capitalism, the social achievement that lifts it above the inert characteristics of all previous economic systems. It is also the market which must bear the responsibility for the persuasive insecurity and instability that distinguishes capitalism from feudalism or from the economies of ancient empires."

The detractors of capitalism claim capitalism creates poverty but its adherents claim the reverse — that capitalism is the greatest creator of wealth the world has ever known.

The argument is futile. They could both be equally right.

Capitalism has produced wealth, probably the greatest wealth the world has ever known, but it is a different type of wealth from that produced in previous societies. Their wealth was the wealth of cathedrals and pyramids and very often great art. The wealth of capitalism is that of commodities and objects made for sale.

The poverty of former systems was the poverty of peasant stagnation and city beggars. The poverty of capitalism is the poverty of ruined artisans, exploited factory workers and mass unemployment.

But don't forget the leaps forward of capitalism. In the early days, there were the inventions of steam pumps and machinery. In England the output of coal jumped 10-fold in 40 years. From the last quarter of the 18th century to the first quarter of the 19th century, the output of pig iron increased by 20-fold.

A so-called "ailment" — the conditions of the masses in England — was a system working.

In the United States, in the tremendous growth of the late 19th century, restructuring took place. Companies combined and formed alliances in order to survive the virile competition of the system. With the power gained they could dictate to the market and consumer alike. This saw the "American citizen born to the profit of the Milk Trust and die to that of the Coffin Trust". Again this was not an "ailment", but a manifestation of the system.

Heilbroner's argument runs through in much the same way up to the 1930s. He illustrates each point with easily understood examples.

Then we come to the great depression of the 1930s. Competition was further intensified but business components were much bigger. The advent of "trustification" had an interlocking that led to the economy being "a rickety architecture of frames and beams and sprin[illegible] inter-locked by national markets and financial networks . . where a blow to a critically placed sub-assembly could threaten the stability of the entire structure."

The cycles of capitalism were becoming that much more severe. Again, the depression was not an "ailment", but a manifestation of the system.

The essential ingredient in a depression, however, is that of psychology. Those of us, old enough to remember, will realise that businesses thought things were bad and so trimmed costs and activities; government thought things were bad and reduced wages and cancelled programmes, private individuals thought things were bad and held back funds for a "rainy day" instead of spending.

Their actions accelerated the rate of deterioration. The essential element of the great depression of the 1930s was the psychology of the times.

Lord Keynes had been propounding his theories for some time and he obtained a willing disciple in Roosevelt. But the population of the major western capital systems affirmed that "what goes up must come down". Such was their state of mind that it took time for their psychological condition of pessimism to be turned around.

We find it difficult today to credit that one quarter of all working people in the United States lost their jobs.

In New Zealand and the United States in the period immediately before the war, there were governments which — though by no means leftist in the modern sense of the word — were far to the left of the administrations they replaced. Both of them, to a greater or lesser extent, were trying to put Keynesian theories to work.

By the time the United States entered the war, one-seventh of its work force remained unemployed.

Heilbroner points out the essential differences between capitalism today and that of the 1930s. He describes today's system as monopolistic governmental capitalism and says inflation is the normal manner in which such a capitalism works.

In the 10 years after the war, price levels in leading industrial nations rose 2.5 per cent. In the next 10 years they rose 3½ per cent, in the five years to 1975 they rose 9 per cent, and in the following five years the scene became more confused; many industrial nations had inflation rates of 14-15 per cent.

The oil crisis was not the real cause of the rise in inflation, but undoubtedly made inflation boom. All the oil crisis did was to make the inherent propensity of inflation more prominent.

Despite years of experience, we do not know much about inflation. We have tried to identify its causes, but "this approach has led to bafflement".

We do not know whether an increase in the supply of money is the cause of inflation or a passive accompaniment or if wages increase inflation or follow it. We do not know if falling productivity is the source of rising prices, or an unconnected factor, or whether inflation may have self-limiting properties.

"The blame can be fixed in turn on the Arabs, the farmers, the Government, the consumer, big businesses, or in some vague way on 'u[illegible]'", Heilbroner asserts.

But he says "one thing known about inflation is that it is perpetuated by psychological conditions not unlike the lack of confidence which was an essential ingredient of the depressions of the 1930s".

This is the psychology of expectations — the state of mind in which we anticipate the future and guide our present behaviour. Inflation is maintained, dampened or accelerated by what we anticipate about the level of prices.

Given governmental capitalism, expectations are sustained which gives rise to chronic inflation.

Before the war, governments played a minor role and there was a general cautionary attitude which was the rule for business and household behaviour. Although speculative booms often created a euphoria which was pervasive the prevailing sentiment was risk-conscious and sober and the catch cry was "what goes up must come down".

The thunderbolt of the world oil price increase in the mid-1970s led to production falls of 10 per cent — one would have expected 50 per cent pre-war. The rise in unemployment was similarly of lesser magnitude.

It is no longer taken for granted that "what goes up must come down". On the contrary, what goes up will probably continue to go up indefinitely. When changes come, corporations do not feel the same need for massive conservation measures. Householders do not feel the need to practice thrift even if incomes fall.

Unions can ask for aggressive wage settlements, knowing that unemployment benefits are the ultimate back-stop. Corporations can keep machines running, knowing that governmental help will assist and maintain demand.

[illegible] ties and [illegible] which push up demand and prices. Conditions of security have altered the division of strength in the tug-of-war between demand and supply where prices are ultimately determined.

A variety of factors have been singled out as causes of the present situation: the oil crisis, the failure of productivity to improve, the shift towards production of services rather than goods, the cost of pollution control, bureaucracy, cost of fancy packaging and so on.

There are high interest rates. There is the Government deficit. There are increased supplies of money. There are cost-of-living allowances and indexing arrangements. Undoubtedly these cause incomes and prices to glide upwards.

None of these factors are important or persistent enough to warrant being singled out as the villain. We had inflation before the oil hike.

There is inflation in some countries where productivity has increased at healthy rates. The shift into the services has been going on for a century.

"No one of these factors can properly be called the single 'cause' of inflation. It is rather, the latent tendency that governmental capitalism displays", Heilbroner says.

Governmental capitalism by welfare support and other programmes, places a floor under the downward movement of the economy and leads to a change in expectations. This is a feature of the whole of the western world. Although democracies may trim some of the Government programmes from time to time, through the ballot box the electors will never return to the *laissez-faire* systems of early capitalism.

What is the cure for inflation? Because inflation is not an illness, there is no cure.

One could, of course, eliminate inflation by Draconian measures to cut back on all-bank lending — the key to the "money supply". It is very likely that the patient would expire along with the disease.

There is no combination of taxes, monetary policies, or administrative *fiats* that will remove the upward pressure of a governmental capitalist order. The obvious solution appears to be to remove Government's involvement in capitalist economies.

It is no longer possible to remove Government. Government is inextricably interwoven in the whole fabric, so if we were to pull Government out, we would destroy society as we know it beyond repair. . . and have chaos.

Heilbroner indicates that the cure for inflation will probably come about as the result of war or some other threat, which would lead to the implementation of permanent wage and price controls and a structure of taxation to prevent build-up of purchasing power. This would not cure all evils of inflation, but it would contain them.

In due course, the so called "ailment" of the socialistic governmental capitalism would then be bureaucracy and inefficiency.

To return to New Zealand, any restructuring must take into account the real nature of inflation.

If Heilbroner is to be believed, restructuring, to be successful, needs more, not less, Government intervention. There is no clear evidence to affirm or refute what most people believe — that increased production with productivity will curb inflation.

One thing is clear at this very time — namely that recessions do not reverse inflation.

Frank Noble Beasley is managing director of General Finance.

Stationer uses ballpoint pen to realise a dream

IN LESS than six years a young Christchurch man has fulfilled his ambition to build up his own business, sell it to a major company, and use the proceeds to launch his own product.

The item is a ballpoint pen that "stays everywhere" by virtue of a flexible cord that can be attached to anything you like.

It sounds mundane enough but for 28-year-old Denis Stollery it's a dream come true.

He started in the office supply business in late 1974 with Denel Stationery and within a few years had caused more than a few ripples in what up till then had been a rather staid business in the garden city.

"From the start I set out to use aggressive marketing techniques like direct mail, television and radio, and personal calls," Stollery said.

But his biggest appeal to inflation-hit businesses was his lower prices, bought about by standardising envelope ranges into two or three metric sizes.

Denel's price-cutting soon brought it into conflict with established stationers, who resented the idea of supermarket-type pricing policies upsetting their generous mark-ups and large range of sizes.

In 1977, Denel became an agent for the Candida range of envelopes which sold to enthusiastic customers in only two sizes at low prices.

The Stationers Guild soon brought pressure to bear and within a few months Denel had lost its distributorship and was forced to buy envelopes at the full prices from existing wholesalers.

But Denel's reputation as an innovator and competitive stationer grew and the company took over the office screen business of Max Cheshire Ltd.

Stollery bought this with a partner, who now runs the screen business on his own under the name Modulink Systems Ltd.

But all the time Stollery was committed to launching a product he could call his own, and with this in mind he visited the United States in 1978.

The product that took his fancy was the ballpoint pen that could be handily used but never went missing because it was attached to a long flexible cord.

Stollery bought back five different models and eventually settled on his own design that contains the best features, including refillable pens, and could be made easily in New Zealand at a competitive price.

He spent the next year carrying out extensive market research in Australia and New Zealand to guage demand and reaction to the product. Distributors, wholesalers, the Post Office, banks and the general public were all brought into the process.

Stollery found his pen fitted into that category of "why didn't they think of it before" and was sure he had a winner.

But he needed money to make his idea a reality and early in 1979 began negotiating with Seekers, a subsidiary of the Command Services Corporation, to sell a majority interest in Denel.

The deal was finally clinched in September with Seekers buying 75 per cent, though Stollery stayed on as manager, a position he has only just relinquished along with his directorship.

He found Denel couldn't provide backing for the pen, now called Penmate, because the company didn't want to go into manufacturing and marketing. Stollery knew he had to go it alone, though Denel was prepared to act as a distributorship.

Denis Stollery ... cut prices brought conflict

Earlier this year Stollery formed his own company, Astoll Marketing Ltd, with Penmate as its sole product. A test order of 2000 pens was used to build interest and this month sees the product launched publicly.

Television will be a key part of the campaign and Stollery says one of the main targets for the Penmate, which will sell at $3.75 retail, is the prestige corporate promotion market.

An improved model is already in the pipeline — it will have a refill — with ink that can be rubbed out up to 25 minutes after writing — and this will be on the market in 12 months.

Stollery is convinced his product is worth staking his business career on and claims its versatility and convenience will open up a new slot in the competitive ballpoint pen market.

But he doesn't see any problem with competition from the cheap throwaways which can't be refilled, and he has kept the product well down from the high-priced personal models from Parker and other makers.

"It's a completely new market which ranges from being a gift or promotional product through to areas where it will be immensely practical, such as attached to telephones, walls, desks, car dashboards or even wheelchairs," Stollery said.

Deliver us from things that go bump in the night

by Bob Stott

ON THE face of it, there's something awfully wrong with the railways in the Wellington area. There have been two serious accidents in the past year — last October a crash injured 44 (mostly not seriously) and in March this year two died and another 53 were hurt.

In between times there have been at least two occasions when trains have been sent off on the wrong line and last month a locomotive and its train parted company in the tunnel. There have also been several accidents involving the shunting of empty carriages in the railway yards.

Press reports speak of passengers too frightened to ride the rails, and a petition is being organised for a commission of inquiry into the Wellington railway system.

The capital's media have had a field day, and have thundered "something must be done" so often that such comments are now almost as much a part of the dailies as Footrot Flats and Snoopy.

The causes of these incidents were:

- In the October 1979 accident a driver travelled faster than instructed by the signals, and was unable to stop in time to avoid hitting a train ahead.
- A trainee signalman made an honest error and a train went up the wrong line.
- The couplings on a converted 1955 model railcar converted to a trailer proved to be less than reliable under certain conditions and a new design of coupler has been introduced.

The Railways Department stands accused on grounds of inefficiency and, in some peoples' minds, is running a service which scares off passengers.

But its record could be considered a defence

Railways carry 25,000 commuters in and out of Wellington each day. One was killed in the 1940s when a fault locomotive design caused a derailment. Another passenger died in 1955 when a train hit a slip and there was the March 1980 fatal accident.

About 12 million people travel on the capital's trains each year and in the past 40 years four passengers have died.

By comparison total road deaths in the five years from 1975 to 1979 were 3146 and about 17,000 people are injured on the roads each year.

This does not provide an excuse for NZR in Wellington because some factors need attention.

- For instance there are occasions when the sheer strength of a trade union can prevent management from taking swift and strong discipliniary action, or simply removing someone from a job which is not suitable for him.
- Some supervisory staff are no example to those below them.
- In some cases having to work with poor equipment has been a contributory factor — the converted railcar which parted from its train is an incident which has an element of this in it.
- "Morale" is an easy excuse to make but lately Wellington people have been rubbing salt into any wounds railway staff bear.
- Railway staff sometimes complain about the poor image the department has, and conclude that someone ought to do something about it.

There is no doubt the department has a poor image, and there's no doubt that some of it is deserved: goods shouldn't get lost or damaged in transit, but some do; staff shouldn't be surly and unhelpful but some are; and trains should run on time but some don't.

So when things go sour as they have done in the Wellington area, a contributing factor is railway staff who individually have failed to take a little extra care in their day to day duties.

[illegible] reached in Wellington where the department has a habitually bad press, and this doesn't help at all. Criticism of the NZR in the capital's press is generally negative, and it is clear that leader writers and other commentators have no clear idea of what they want from a national railway system.

The state gets involved in transport to provide services which private enterprise wouldn't touch and yet which are seen as in the national good, or at least desirable at a more local level.

This state approach prevails in other parts of the world, especially Europe where on a per capita basis the rail losses are generally far and away above their New Zealand equivalent.

Our papers comment about the speed of Japanese trains and the efficiency of German trains by comparison with the NZR, and never fail to avoid mentioning the truly massive losses these rail systems make.

Railways round Wellington have certainly had a bad run of luck which has damaged an unenviable reputation (12 million passengers a year, four deaths in 40 years).

The physical state of the system has been a contributing factor in a few cases, but is not such as to cause alarm.

Most staff do their best, although as in any big organisation a few have let the side down.

By world standards, the NZR doesn't do all that badly.

And the solution?

If individual railway staff keep smiling and do their best at a personal level and if management continue trying to explain how this massive transport undertaking works then I suppose there must be improvements in the public attitude toward the NZR and a subsequent improvement in a railway system which is by no means as black as it is sometimes painted.

The alternative is a sort of self-fulfilling prophesy, whereby the public sees the NZR as being somewhat inept and the department drifts into ineptitude. A case of "give a dog a bad name" and a real danger.

Trans-Siberia goods trek

MORE than 60 New Zealand companies are now regular users of the trans-Siberian rail system for the passage of goods to and from Europe.

Auckland shipping agent Mogal International ran its first Mogal/Jeuro trans-Siberia container service in 1976. Interest in the route has grown steadily.

"The amount of goods travelling that way is small in comparison with total movements, but it is providing an effective and economic alternative," said manager Stuart Ferguson.

The service only caters for full container loads of dry, non-hazardous, non-perishable goods. The transit time is longer than for alternative routes, but it is being used frequently, specially by companies trading with eastern Europe countries.

Freight rates on the dual-track, electrified and computer controlled rail system are low, and Jeuro, Mogal's European partner, has access to the Moscow computer centre, Soyezveneschtrans, which can pin-point the exact location of a container en route.

Jeuro is the largest foreign operator of freight traffic on the trans-Siberian system. Last year it moved 70,000 containers, but it still accounts for only two per cent of the total rail traffic on the line.

Primary industry

Sales tax rides on economical three-wheel bike

by Rae Mazengarb

THE widespread use of an energy-saving "work-horse" on farms is being frustrated by Government policy.

Prosecutions on sales tax charges may result as the Customs Department takes steps to enforce its rigid attitude.

Three-wheel motor bikes — sometimes called "all terrain cycles" — are burning off small tractors to win farmers' favours because of their low capital and running costs and great versatility.

And they cause little damage to precious pasture — a boom at this time of the year for farmers doing a twice-daily lambing beat over saturated paddocks.

The bikes are also being bought for use in vineyards and orchards.

But there is a hitch: sales tax. The Customs Department does not regard them as farm motor bikes when determining refunds of sales tax.

The department has launched investigations in each of three regional areas into possible breaches of the Sales Tax Act.

A department official said last week it was "inappropriate to make any further comment" until the investigations had been completed. But prosecutions may be laid, he said.

The investigation was "in relation to the sale of three-wheel cycles".

Asked if he was aware of their potential in the agricultural sector, especially in terms of savings in overseas' exchange and fuel in line with Government policy, he said he was "not prepared to comment on policy".

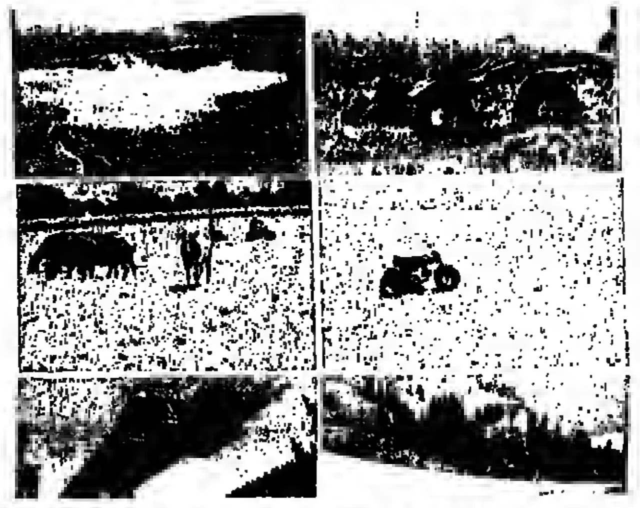
Asked if the Sales Tax Act was likely to be amended to allow refunds of the sales tax to farmers, he said it was "unlikely", but he was not in a position to speculate.

Refunds of the sales tax are allowed for people with permanent disability, but not for farmers because of an anomoly in the Sales Tax Act which classes only two-wheeled bikes as motor cycles.

According to a report in the *Wanganui Chronicle*, a Customs official has said "the bikes were being purchased by wealthy cockies as fun bikes for kids".

Asked if he was aware that the bikes were safer than two-wheelers and could be used for a wide range of agricultural tasks, the official admitted he had never looked into what the three-wheel bikes were used for, according to the *Chronicle*.

National Business Review talked with a farmer who has replaced his 30 hp diesel tractor with a 185cc "ATC".



All terrain cycles ... little damage to pasture.

With a custom-made trailer hitched up behind, he found it better than a Landrover or tractor for checking ewes during lambing. And he was using the bike to feed out eight bales of hay a day.

He had not been using it long enough to determine his exact fuel saving, but reckoned he had slashed consumption by at least half.

"The Landrover is not the answer, because it's hungry on fuel," he said.

But the biggest advantage with the three-wheeler would be lack of damage to pasture," he said, pointing out that at this time of year there was a grass shortage.

The vehicle could be used for "any tracked country", he said.

He had heard claims that the bike — with its wide tyres — could go up and down steep slopes better and more safely than a two-wheel bike.

He found the three-wheeler easier to get off and on and he could lead it through gates "just like a horse". The old problem of a conventional farm bike falling over in the mud had been eradicated.

It was "annoying" that Customs would not class the three-wheelers as agricultural bikes, he said. "It seems silly when they have branded on them that they are not to be used on the roads."

Farmers were replacing small tractors with the bikes, he said, and a fencing contractor had just replaced two four-wheel drive Toyotas with three bikes.

The bikes have been around for a long time. But at a cost of $1400-$2000 (compared with $7000 for a small tractor), farmers are finding the bikes more attractive.

A spokesperson for one group of importers said the machines were selling faster than the company could get them.

The sales tax issue was "silly" considering the savings in overseas funds *vis a vis* small tractors, she said. Besides, "they can't be licensed for road use".

Retailing

Bakers in for slice of the superloaf action

by Lindsey Dawson

THE bread business is hotting up as bakers enter the superloaf battle.

Hans Klisser, of Klisser's Farmhouse Bakeries, was first into the market late last year after noting the success that a Melbourne bakery was having with an extra-long loaf.

His Super Milk Sandwich Bread has been a winner, second only in sales to the company's popular Vogel bread.

Standard sliced sandwich loaves are 500 grams. The super-loaf is a minimum of 750 grams and has 33 slices of medium-sliced bread for 69c.

The loaf had instant appeal. It went further, froze well, and the medium cut was suited for toast or sandwiches.

A supermarket manager said he was selling 1200 Super Milk Sandwich loaves a week, compared with 500-odd sliced standard sliced loaves.

Now other bakers are after a slice of the action. Tip-Top has recently launched its version on the Auckland market (at 33 slices for 66c) and Wellington and Whangarei bakers are rising to the occasion.

The Tip-Top loaf, heavily discounted by some foodmarkets in its first week on sale, has settled down to its normal price, undercutting Klisser by 3c a loaf.

Dieters might read the packets — the Klisser slice has only 57.3 calories, Tip Top's has 66 calories.

My trusty kitchen scales reveal that they both weigh around 900 grams. It seems there's no official weights and measures designation for a 900 gram loaf.

Findlay's Gold-Krust Bakeries is gearing up for a jumbo-loaf, but has been held up until it can get long baking tins. Findlay's has a target date for its product-launch, but we were told (rather crustily) that it was confidential information.

Meanwhile Klisser professes to be happy about the onslaught of new loaves. "Competition is good for business," he said.

Feline fancy empties shelves

WATTIES' Biscats dried pet food is on supermarket shelves again after an absence of several weeks.

Watties was surprised by the cat food's popularity which caused the supply shortage.

New specialised milling equipment has been installed to ensure constant future supplies.

Managing Director Ray Wattie said the dried food was not as popular as canned types, but had been selling at the rate of about 120,000 packets a month.

Biscats provides a balanced feline diet. The food is ground up and then subjected to high pressure under heat, turning it into expanded granules that look like brown rice-bubbles.

Pet-owners are going for it, not just because puss likes the stuff, but because it is a good convenience food that does not need refrigeration and has a long shelf life.

Watties' pet food research centre developed the product after success of similar foods overseas.

Ray Wattie said that because of the supply situation it had only been supplied for the domestic market. Export of Biscats was a future possibility.

Law

Ill-fated Kelmac Group boss adjudged bankrupt

BRYAN Knox — company director and former owner of the ill-fated Kelmac Group — has been adjudged bankrupt.

The Official Asaignee in Auckland will administer his estate on behalf of creditors.

The action — a petition dated June 10 this year — was brought against Knox by a Wellington solicitor acting on behalf of Chevalier Ado Malevez (company director); Two Belgian companies, Immobilier Old England SA and Ateliers de Jambes Namur SA; Lichtenstein-based Establissement Serina; and Jover SA, of Panama.

The case relates back to an English judgment obtained against Knox in respect of his default in purchasing shares in Drake and Cubitt Holdings.

The group sued and obtained judgment against Knox in the High Court in England in August 1975. The judgment was registered in New Zealand in January 1976 under the Reciprocal Enforcement of Judgments Act 1934.

The debt of $605,374.30 was proved before Mr Justice Ongley last month.

It is understood the group has also initiated proceedings against John Russell, former managing director of Merbank, and Louis McElwee, solicitor for Knox and Kelmac Mercantile Ltd, for procuring Knox to breach a court undertaking.

Another action was started in the High Court late last year by the Official Assignee. But *National Business Review* was denied permission to examine the writ of summons, the statement of claim and other documents filed in the court.

The Registrar did allow *NBR* to peruse the action book, which indicated documents filed, but gave no particulars of the claims against Knox.

It is understood the Official Assignee was acting in his role of provisional liquidator of Kelmac.

The proceedings are now likely to be determined by the bankruptcy.

Meanwhile, Knox has been initiating legal proceedings in Auckland against his former firm of solicitors, Kensington, Haynes and White.

Knox's claim dates back to the Securitibank crash in 1976. He alleges that McElwee transferred $1.3 million worth of Kelmac shares to the Securitibank subsidiary Merbank, for $1.

Knox claims that any transfer of Kelmac shares was subject to a court injunction restraining their transfer and that McElwee transferred those shares under his power of attorney while Knox was out of the country.

Knox claims the true value of the shares transfered for $1 was $1.3 million. He claims McElwee was in breach of a contract with him for professional services saying "in failing or refusing to advise the plaintiff (Knox) to obtain independent legal advice as to the sale and transfer of the plaintiff's shares to Merbank Corporation, given defendant Louis Patrick McElwee's conflict of interest in respect of his personal guarantees to Merbank in the event of the building project being completed at a loss."

Before the Securitibank crash, Kelmac was financed by Merbank in the construction of the Knox Plaza in Wellington's Manners Street. Merbank had $7,704,218 in the building in 1976 when the valuation for the building was only $4.15 million in its uncompleted state and $4.5 million when completed.

Figures supplied by Securitibank in July 1976 show that of the total Kelmac expenditure of $6,575,920, about one-third — $1,976,920 — was paid out in financial charges. At that time the building was $1.5 million short of completion.

The Knox Plaza finally sold for about $3 million to the NZMC.

The Kelmac shares sold for $1 to Merbank were eventually passed over to Challenge Corporation by the Securitibank liquidator for an undisclosed amount.

It is understood the Securitibank liquidator could receive up to $1.3 million for these shares if Challenge can use Kelmac's losses as a tax loss.

Neither Challenge nor the Securitibank liquidator were prepared to comment on this.

McElwee said all these allegations would be strenuously denied and the action would be defended if it ever went to court. Beyond that, McElwee said he thought it inappropriate to comment.

Ethanol test car arrives

THE Liquid Fuels Trust Board will take delivery of an ethanol fueled car. The Fiat 147 with a 1300 cc motor has arrived in Auckland from Brazil, the country of manufacture.

The car was imported by Fiat dealers Auckland's Torino Motors.

Alcohol fuel for the car's test run will be bought locally. It might come from the recently established distillery at the New Zealand Dairy Co-operative which is making alcohol from waste whey.

Choice of fuel has not been decided; it must come up to the car manufacturer's standards to preserve the car's warranty.

A decision on who will test the car, and where has not been made.

Computers

Council backs push for 'packet'

by Stephen Bell

A REPORT issued by the Communications Advisory Council backs up the action of the Post Office in urgently pushing for a packet-switched communications network. But people in the computer services and communications industries are not sure that the need is so urgent.

The Post Office has already issued a request to tender for packet-switching equipment, to be in service by 1982. The council report lends support to this decision by quoting current data volumes and evident demand. "A packet-switched data network . . . will be needed to satisfy New Zealand's requirements for the foreseeable future", the report said.

Gordon Hogg, general manager of Databank, one of New Zealand's largest communications users, does not see the requirement as that urgent. It would be worth delaying packet switching by as much as a year, he told *NBR* to "make every effort to search through New Zealand" for suitable local suppliers for at least part of the system. This, he said, would be preferable to acting precipitately and seeing the entire contract disappearing overseas.

Use of local resources, aside from saving overseas funds, would be a way to build up local companies' experience in emerging communications technology.

The easiest route for the Post Office would certainly be to rely on one of the ready-made systems deliverable from overseas, rather than employing a local company to develop software and subcontract for overseas hardware.

According to one local communications specialist the Post Office tender looks very much like a description of one particular 'package' from the United States. This equipment, known as TP-4000, runs the American Telenet network.

Other packaged solutions are bound to develop in the near future, he points out, and therefore it might be politic to wait before swinging into action on packet switching, if for an entirely different reason than that suggested by Hogg.

The report is based partly on a survey of all users of leased data lines in the country. This identifies a growth in demand for data communications in the short and probably the long term; a growth which the Post Office clearly finds difficult to support at economic rates with current technology.

However, sources suggest, "specified speed" lines, scheduled for release by the Post Office late this year, could act as an effective 'stop gap', providing the extra capacity at lower cost, and the packet switching move could be held off.

"Specified speed" links will allow several users of low-speed communications to share one high-speed line, instead of under-using a high-speed line each, as they do at present.

This will not, however, cater for the user looking for high speed but having a low volume of data to transmit each day. The survey uncovers many users tying up dedicated lines permanently, but using them for as little as 10 minutes a day in short bursts.

For such users, the sharing of a packet-switched link would be an efficient solution.

The council was unable to obtain any firm information from the Post Office on the crucial matter of likely tariffs for packet-switched lines, and little information on support to be provided by the network for terminals not oriented to packet switching. The report is therefore of limited help to users in making a decision whether or not to plan for use of the service.

The report does, however, provide much background information on packet switching and the issues involved in its adoption. "It was our impression that there was a need for a paper to clarify thinking" on these issues, and related questions likely to emerge in the future, said council spokesman Bill de Lisle.

Congress comes close to home

TIME is running short for New Zealanders to grasp what will probably be the easiest opportunity for some years to participate in international discussion of the latest advances in computer technology and its applications. The IFIP Congress 1980 — or half of it, at least — will be just across the Tasman.

The eighth event of its kind, it will be split, for the first time, between two venues — Tokyo and Melbourne.

IFIP — International Federation for Information Processing — is a supra-national body which has as its members the information processing societies of 39 countries. Once every three years, it mounts a world congress at which the latest computing ideas and problems are aired.

Papers to be presented at the 1980 congress cover the usual wide field, ranging from theoretical considerations, which computing people hope will lead to a better understanding of information processing as a science, to the severely practical implications of the use of computers for humanity.

Typical considerations on the latter front will include the effect of computers on employment and the organisation of businesses and society, education for the use of computers and the introduction of computer interfaces which communicate with the operator in a more 'human' way — a vital consideration, bearing in mind the increasing use of computers by people with no technical background in data processing.

Even under the more technical headings such as 'software', IFIP contributors will be treating some of the human problems of computing, such as how to relieve the critical shortage of expert computing personnel and how to make the task of developing computer systems easier and more reliable, by taking lessons from older disciplines.

On this last topic, United States speaker Barry Boehm, one of the pioneers of 'software engineering', will be delivering a paper in Melbourne on the application of engineering-like disciplines to the development of small systems in particular. Software engineering is widely regarded as a technique applicable only to very large systems.

Database organisation and telecommunications, both playing an increasing role in New Zealand computing, will be a major topic of discussion. Under the former heading, the application of database organisation to new types of storage, and the building of specialised database processing machines will be among the subjects considered.

Telecommunications papers will deal not only with the communication of processors and programs with one another, but also with the growing use of computers to provide public information services such as viewdata and teletext. Tokyo delegates will be able to see a demonstration of the Japanese viewdata system, Captain.

For the benefit of people able to attend the conference only at one venue, many of the papers, including almost all of the invited material, will be delivered in both Melbourne and Tokyo.

A parallel exhibition of computing equipment will be held, at which several suppliers will, no doubt, take the opportunity of international exposure to release new products.

The conference will be held in Tokyo from October 6 to 9 and in Melbourne from October 14 to 17.